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HOW TO INVEST MONEY WISELY

BY
JOHN MOODY

AUTHOR, "HOW TO ANALYZE RAILROAD REPORTS," "THE ART OF
WALL STREET INVESTING," "MOODY'S ANALYSES OF
RAILROAD INVESTMENTS." EDITOR, MOODY'S
MAGAZINE, ETC.

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Presented by

Robert Wilson Jones



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PREFACE

In the following chapters the proper methods for investing money in standard securities are outlined and discussed. An attempt has been made to treat this important subject in a practical and concrete way, and thus enable the investor to feel that he is getting something more than a mere statement of principles. The great weakness with most books on investment subjects is that they generalize too much, without presenting practical suggestions for the investor to adopt.

The whole plan of this little book is based on the ideas of Diversified Investing which the writer has for many years been making a careful study of in his work as an analyst and adviser for bankers, financial institutions and individual investors both at home and abroad. These principles for wisely and intelligently investing money under diversified plans have within the past few years been adopted by numerous institutions and several thousand individual investors with satisfaction and profit.

It will of course be recognized that within the limited scope of a small volume of this kind, the subject can be covered only in outline. But it is hoped that

Those who read this book with care will desire to have the subject further elucidated, with the idea of applying the method of investment themselves. For all such as these, our large statistical and analytical organization is operated, further details regarding which will be furnished upon request.

JOHN MOODY.

35 Nassau Street, New York.

NOTE.—In the back pages of this book will be found a detailed description of our Investment Service.

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PART ONE
DIVERSIFYING INVESTMENTS

I

Selection of Investments

THE sound principle for properly distributing investment capital has been a puzzle to investors for many years. This is not only true of the person whose investment capital is small and limited to a few thousand dollars, but it is just as fully the case with the large investor whose capital runs up into the millions. As a general thing those who desire to have their principal thoroughly safe have endeavored to confine themselves to the higher grade bond issues of railroads and municipalities, and in some cases have made an effort at distribution by spreading their investments over wide sections of the country and among a considerable number of different issues. But in spite of this effort at distribution, such investors usually find themselves facing losses in principal even in periods of prosperity when they naturally would expect profits on this principal. In fact, the method employed by such investors has often resulted in permanently impairing their capital rather than adding to it. Many cases can be pointed out where an investment fund of \$500,000 has been reduced from ten to twenty per cent in the short period of ten years and this has hap-

pened when no undue risks have been taken and no ordinary speculation whatever has been indulged in. Of course, where an investor attempts to add to his income by investing a part of his principal in speculative stocks or bonds, the dangers of loss under certain conditions seem apparent enough. But when his entire effort has been directed to the conservation of his principal and he has consistently avoided investment in any stocks or bonds of a doubtful or speculative nature, it seems on the surface quite surprising that such losses should be incurred.

But when we turn to the small investor whose capital is limited in amount, and whose securities are usually confined to only two or three issues, we find that the danger of loss in principal is even far greater. I have known of many instances where an investor with a capital of from two to five thousand dollars, after exerting the greatest possible care in placing his money safely and avoiding every kind of a speculative proposition, has found himself at the end of two or three years with a loss of from twenty to forty per cent and with no possibility of recovering this loss except by taking unreasonable risks.

The kind of advice which is generally regarded as the most conservative for the investor who does not wish to risk his principal is the following: "Think first of your capital and pay no attention to the amount of interest return until the intrinsic value back of the investment has been thoroughly demonstrated. Confine your investments to first mortgages in railroads or other successful undertakings which have back of them a heavy earning

power and on which the interest has been earned for a long series of years at least three or four times over. Or, select municipal bonds which are backed by the credit of prosperous American cities and about which there is no doubt whatever of a permanent maintenance of high credit."

Now suppose an investor with a capital of \$20,000 acted on the foregoing advice in the year 1902 and put half of his principal into Lake Shore & Michigan Southern Railroad 3½% bonds and the other half into New York City 4% bonds. In the year 1902 he would have found that among railroad bonds there was nothing which stood higher than Lake Shore 3½s. These bonds answered the test of *security* to the fullest extent. They had back of them an enormous equity in railroad property with great earning power, and for a long series of years the earnings had been sufficient to cover the interest on the bonds at least half a dozen times over. The issue was of such high standing that it became a savings bank investment in New York and other Eastern states, and in every sense of the word was practically as secure as a government bond.

As for New York City 4% bonds, nothing of higher type could have been selected in the municipal field. The credit of New York City was unsurpassed and the general strength of its obligations seemed quite equal in security to those of the United States Government.

But where would this investor find himself today had he followed this advice ten years ago? In the case of the railroad bonds, he would find that his principal had de-

preciated more than twenty per cent. In the year 1902 the Lake Shore 3½s sold steadily between 110 and 112. In the latter part of 1912 they were quoted at 86 and during this entire period of ten years they had been quite steadily declining from the high figures at the beginning of the decade.

The record of the New York City bonds is somewhat similar. In this case the investor would find that over ten per cent of his principal had gone forever. These bonds sold steadily well above 110 in 1902, but today are quoted considerably below par.

In both of these cases the equity or strength back of the principal of these issues has been fully maintained during the past ten years. The earning power of the Lake Shore & Michigan Southern Railroad has greatly increased since 1902 and the margin of safety on the 3½% bonds has grown almost every year. The standing and credit of New York City has also been maintained and the assessed valuation of property is enormously greater today than ever before.

But in spite of these facts the investor who had put \$20,000 into these securities in 1902 would find himself today with his capital contracted to less than \$17,500 with no apparent hope of being able to get this loss back within his lifetime. While it is true that a part of the loss on a bond like the Lake Shore 3½s will finally be recovered eighty years hence, when the bonds mature, yet at no time during the man's life would he be able to turn this investment into cash without accepting a very large part of this loss.

It will thus be seen that the principle outlined for the safe investment of capital, as mentioned above, does not work out in practice. In fact, any sound method for the safe investment of funds must be planned on entirely different lines from that which is ordinarily stated.

II

Mistaken Investment Methods

IT has often been said that it is far easier to make money than to save it. Thousands of investors, large and small, will attest to the truth of this axiom. For show me an investor, who, without special and expert experience, can safely and intelligently invest \$50,000 or \$100,000, and *keep it safely and intelligently invested*, on a basis to yield normal rates of return, and not jeopardize his principal, and I will show you a hundred who are in constant danger of losing or seriously risking at least a part of both interest and principal. And in saying this I do not refer to the speculator, nor even to the "semi-investor" who seeks "a little more than the average return," but exclusively to the man, woman or institution who may be well satisfied with genuine safety of principal, combined with an interest yield of from 4% to 6% on the invested capital.

As I intimated in the first chapter, one of the causes of investment loss is the adherence to some crude principle in investing money, which, while sound enough in itself, does not go far enough to offset the many pitfalls which confront the average person who wishes to set his money actively at work in good securities. The most conspicu-

ous of those investment principles which I would designate as "crude" is that one which is based on the theory that only "high grade or first mortgage bonds, legal for savings banks," and a few high grade stocks of equal security, so far as principal is concerned, should be included in a sound investment scheme.

To show the unsoundness of this bare theory if taken by itself alone (and it is so taken in thousands of cases), I present on page 19 a concrete example of the ordinary method of "conservative" investment, as applied to a capital sum of about \$100,000. The assumed date of this investment is 1902, ten years ago. I show the cost of the bonds selected at that time, the yield on the cost, the low value in 1907, the high value in 1909, and the value in the month of May, 1912.

The investment scheme here presented is confined entirely to "high grade" railroad issues, most of them savings banks investments, and all recommended in the strongest terms as "seasoned" issues. As far as security of principal is concerned, nothing could be better; there are enormous assets back of every one of the issues, and at the end of the decade, these assets were in every case much greater than at the beginning. And further than this, the sum is distributed in very small lots, showing an attempt at diversification. And yet, as the example shows, the outcome has been most unsatisfactory to the investor. Not only has the yield been low from the start (disregarding amortization, which would make it very much lower), but the holder has actually suffered a heavy loss in present capital value. At the low prices

Mistaken Investment Methods

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Amount (Par)	Titles of issues:	Purchase price 1902	Cost	Yield	Low value 1907	High value 1909	Value May 1912
\$5,000	Allegheny Valley 4s, due 1942.....	107	\$5,350	\$200	\$5,350	\$5,550	\$5,000
5,000	Atchison gen. 4s, due 1995.....	100	5,000	200	4,500	5,100	4,950
5,000	Balto. & Ohio prior lien 3½s, due 1925	95	4,750	175	4,300	4,750	4,600
5,000	Beech Creek 1st 4s, due 1936.....	110	5,500	200	4,900	5,000	5,000
5,000	Boston & Albany guar'd stock.....	260	13,000	400	9,000	11,950	11,000
5,000	Bur., Cedar Rapids & N. 1st 5s, 1934..	123	6,150	250	5,300	5,850	5,550
5,000	Cent. R. R. of N. J. gen. 5s, due 1987.	135	6,750	250	5,550	6,450	6,100
5,000	C., B. & Q. Denver ext. 4s, due 1922..	102	5,100	200	4,850	5,000	5,000
5,000	C., Mil. & St. Paul pfd. stock.....	190	9,500	350	6,900	9,050	7,250
5,000	Chic. & Nor. West. gen. 3½s, due 1987	103	5,150	175	4,350	4,700	4,350
5,000	Illinois Central 1st 3½s, due 1951....	104	5,200	175	4,450	4,700	4,500
5,000	Lake Shore & M. S. 1st 3½s, due 1997	108	5,400	175	4,150	4,750	4,450
5,000	New York Cent. ref. 3½s, due 1997..	108	5,400	175	4,350	4,700	4,400
5,000	Northern Pcf. prior lien 4s, due 1997..	106	5,300	200	4,700	5,200	5,000
5,000	Union Pacific 1st 4s, due 1947.....	106	5,300	200	4,650	5,200	5,050
5,000	West Shore R. R. 4s, due 2361.....	115	5,750	200	4,700	5,200	5,050
Totals			\$98,600	\$3,525	\$82,000	\$93,150	\$87,350

of 1907 (the panic year) his principal showed a depreciation of \$16,600 or 18%; at the high prices of 1909 (the best seen since the panic) he still had a loss of \$5,450 or over 5½%; while at present prices he has a loss of \$11,350, or 11½%.

The truth is that the theory on which this man invested his money is not only inadequate for modern times, but unscientific and unsound. He supposed that in spreading his principal among many companies, in small lots, and diversifying it to all parts of the country, he was spreading his risk and keeping his eggs out of one basket. But as a matter of fact, all his eggs were in one basket and that basket was tied to one string, and is still so tied. He might just as well have put all his capital into one bond issue of the high grade seasoned class; the result would have been essentially the same.

In future chapters I shall attempt to point out some of the real principles which should be adopted in a safe and sane investment program.

III

Unsound Theories

AS pointed out on the previous pages, the theory of investment followed in the example shown is not only inadequate for modern times, but unscientific and unsound. With the rapid and unusual changes in business enterprise and industry during the past quarter century the field for investment has not only broadened vastly, but has become immeasurably complicated. Where, in 1885, there were but few fields in which the careful investor could safely place his funds, with only half a dozen types of high class security issues, to-day there are many dozens of such. In those earlier days, money could be invested with safety, and on a satisfactory basis of yield (outside of real estate mortgages), only in Government issues of the United States, carefully selected bonds of States, Cities and Towns, and still more carefully selected issues of steam railroads. But nowadays, not only has the field for government, municipal and railroad issues vastly broadened, but entirely new fields for safe and profitable investment have come into existence. The change of manufacturing enterprise into corporate forms, and the consolidation into vast units of industrial undertakings of every type has enlarged the

investment field within recent years to the extent of probably ten billions of dollars in this one direction alone. The development of electrical power and light, with the growth and expansion of the great public utility undertakings of the country, has also broadened the field enormously in which capital can safely be set to work without danger to either principal or yield. The growth and expansion in the use of the telephone; the opening up of natural resources; the increases in the possibilities of water power and water supply; the growth in commercial use of gas and oil; the increases in population which have steadily raised the values of utilities in our cities;—all have opened new avenues for the safe investment of capital which were not dreamed of a generation ago. And within the past ten years, the trend toward consolidation of retail businesses in many lines, including the remarkable growth of the mail order business, has brought into existence a new class of security issues of safety and promise. Furthermore, the steady increase of wealth throughout the American continent has constantly contributed to enlarged size and stability for institutions engaged in the business of banking and insurance, and many stocks of National and State banks, trust companies, safe deposit and insurance organizations have, within recent years, come to be classed among strong and desirable investment issues.

It is probably largely because of the very multiplicity of these investment possibilities that the problem of safe selection of investments has become so difficult in modern times. No one but he who has made a careful study,

not merely of particular investments, but also of general business conditions, can be regarded as qualified to select the best issues with entire assurance of safety. For the pitfalls are many and dangerous; and while, among all the classes of enterprise referred to above, money can be discriminatingly placed, the fact remains that danger stalks in every direction for the person who has not the facts at hand or who does not possess the experience to pick the wheat from the chaff. Thus, while one can safely select bond issues secured on trolley lines which are, for all practical purposes, "as good as gold," he can also lose his money by buying worthless trolley bonds or stocks. He can select "seasoned" railroad issues, and he can lose his money with great ease in this same field. He can buy industrial investments which will pay him handsomely; but he also has full opportunity to lose his all in this same type of security. If he goes in for bank or trust company stocks, he may fare well or he may do worse than anywhere else; and he can also find plenty of weak or bad municipal bonds as well as good ones.

Because of the existence of so many pitfalls, many investors adhere to the theory that it is still the wisest plan to stick exclusively to the few old line investments, such as municipals, governments, and the underlying bonds of railroads, and not attempt to go into the new and less mature investment fields. But against this theory stands the undeniable fact that the investor must attempt to conserve his full principal and at the same time get at least a fair return on his capital. Unless he be a very rich man, he cannot afford to allow all his capital to be

concentrated in government issues, yielding 2 to 3 per cent, nor in high grade municipal bonds, which will return him but little more. If he selects a large proportion of underlying railroad bonds in order to bring his income up to a moderately higher plane, he cannot hope to secure an average yield of over $3\frac{3}{4}$ to $4\frac{1}{2}$ per cent in any event.

But there is a still stronger reason than this why he cannot afford to concentrate his capital entirely in security issues of this type. Such bonds, whether they be governments, municipals or railroads, often prove, when held over long periods of time, very unsatisfactory investments indeed. As I pointed out in the first chapter, he who bought New York City bonds five or six years ago, finds himself in a very unenviable position with his holdings today. If he had bought English consols, French rentes, or the bonds of any strong government or strong municipality on this or any other continent, he would have fared the same. If he had selected underlying railroad bonds, with enormous equities and vast earning capacities back of them, he would have done no better. Ten years ago, English consols would have cost him 98; today the same bonds are selling at 74; Illinois Central 3s, in 1899, sold at 96; now they are quoted at 75. No matter how carefully he had selected issues of this type a few years ago, he would today be facing a serious depreciation in the value of his capital.

IV

Proper Principles for Diversifying Investments

IN recent chapters I have been pointing out the mistaken ideas regarding proper investment distribution, which so many investors have followed to their sorrow in modern times. I shall now submit some constructive suggestions regarding scientific investment distribution and try to lay down some fundamental principles which all investors should recognize when placing their capital in bond and stock issues.

There is a distinct divisional line running across the entire field of corporate investments. This line of demarkation does not follow any superficial division such as we find distinguishes a stock issue from a bond obligation. A bond *per se*, is not always necessarily any better than a stock; nor is it sometimes as secure as a stock. Many stock issues are far superior in strength and value to many bond issues, and the mere fact that the bond is a mortgage, and that the holder thereof is legally entitled to a fixed return on the mortgage, will not of itself necessarily put him in a position of better security than that occupied by one who holds common stock in a corporation or railroad which is not a mortgage and which has no prior claim on income. This is simply another way

of saying that, after all, the real element back of the average security is the *earning power* or income producing capacity of the property. A first mortgage on a railroad which is earning little or no money is not in any sense so desirable as a common stock on a railroad or industrial corporation which is earning and paying a good dividend on that stock.

The relative position of different securities in relation to earning power, results in dividing them into two great classes. These two classes are briefly defined as follows:

1. *Securities, the investment values of which are beyond or above the influences of fluctuating earning power; and*
2. *Securities, the values of which are almost exclusively affected by changes in earning power.*

Among the former are such issues as underlying bonds of railroad systems on which, over a long period of years the interest has been earned many times over, and back of which there are vast equities which are of such size that no possible doubt could arise regarding the practically complete security of the issue. Such are many of the bond issues secured on the Pennsylvania, the Illinois Central, the Chicago & Northwestern, the Burlington, the Lake Shore, etc. Preferred stock issues of some railroads are also to be regarded as in this class, although this does not generally hold true. Guaranteed stocks also are in many cases in the same general class as high grade seasoned bonds and the higher grade preferred stocks. Guaranteed issues like Morris & Essex stock, New York, Lackawanna & Western stock, and Pitts-

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burg, Fort Wayne & Chicago stock, are all issues of this type.

The primary factor affecting the prices of this first class of securities is the money market. The price of a bond like the Lake Shore first $3\frac{1}{2}$ s or the Illinois Central $3\frac{1}{2}$ s is not materially (if at all) affected by the changing results from year to year in the income of these properties. The price of Northern Pacific first 4s is not so affected. These properties might double their earnings within a given time and this fact would have no appreciable effect on the prices of these bonds. The same thing is true of the Union Pacific first 4s, the Pennsylvania Railroad underlying issues, or the underlying bonds or strongly guaranteed issues of the Delaware & Hudson, the Reading or the New York Central. Consequently, if the investor confines his selections to high grade issues of this type he need give little concern to changes and fluctuations in earning power. It will not hurt him if earnings on his particular property fall off quite radically; and conversely, it will not help him if earnings rise very rapidly. Even should his particular property come upon evil days and default on some of its junior obligations his position will be practically the same. In the year 1908 the Erie Railroad failed to earn the interest on its junior bond issues and came perilously near a receivership, but the underlying bonds on the system, such as the old Erie Railway 4s and 5s, secured by first lien on the main line, were not affected in value or price by this condition of things. In fact, they were selling at better prices, when the company was so near bankruptcy, than they were two

years before, when the road was reporting a large surplus and paying a dividend on its first preferred stock. The reason for this was that, no matter what may have happened to the Erie system, the equity back of these particular issues was so heavy that troubles could never reach them. The Erie might have been reorganized in a very drastic fashion, and yet these mortgages could not have been disturbed. Consequently, they are in the first class mentioned above, and depend for their value, not on specific factors affecting the earnings or financial condition of the Erie Railroad, but on the general money rate factor almost exclusively.

To take a more extreme case. The Wheeling & Lake Erie Railroad has been in receivers' hands for several years, but the Lake Erie division bonds of this company sold higher in 1909 than in 1908 and have never declined in response to the fact that the company went bankrupt.

The true line of demarkation between "high grade" issues, so called, and those of any other "grade" is the one we have indicated. The phraseology on the instrument has its place and meaning, of course; but no legal lore or high sounding phrases can give a bond value if its position in the income results of the property is not secure. If a given railroad is earning an average of \$5,000 per mile net, and a bond issue on the property has the first claim on that income, the immediate question will be, how much of that \$5,000 per mile is required to meet the interest on the issue? If \$4,000 per mile is so required, then the bond is in no sense "high grade;" for a 20 per cent decline in net receipts would wipe out all the

Proper Principles for Diversifying Investments 29

margin of safety. But if the amount required for interest is \$400 per mile or less and the net earnings are \$4,000 per mile, then the bond is removed entirely beyond the influence of changing earnings, and even a 50 per cent fall in net receipts would not jeopardize its position to any great extent. In fact, the road would have to go through an almost unheard-of period of bad results to affect the value of this issue.

But sufficient has been said to indicate that any sound and rational distribution of investment funds must cover a broader field than that of the merely "high grade issues," so called. In brief, it should include not merely issues which are primarily responsive to the current rates for money and credit, but also such issues as are more directly responsive to earning power. The latter type of securities can easily be included in a sound selection of investments without going into the field of speculation. It is not necessary for a man to buy speculative bonds or non-dividend-paying and doubtful dividend-paying stocks to get the benefit of improving earning power and growing equities in railroads and other properties, which transpire over reasonable lengths of time. But it is necessary that he should invest to some extent in the types of securities which have a potential interest in the expansion of the property. If he buys an ordinary bond he has a limited interest only; if the bond is thoroughly seasoned and he has paid the prevailing rate for it, then there is no chance whatever of future benefit from expansion in values of the property; if the bond is low grade and not yet secure, then he is merely speculating. If, how-

ever, he can make careful selections of securities which participate in some way in increasing earnings, either directly or indirectly, then as the business and profits of the company grow, the value of his investment and the income on it will also grow. If he purchases, at the proper periods, stocks of railroads like the Illinois Central or the Pennsylvania, which have long records for steady payment of dividends, he may be able to put himself in a stronger position to meet changing conditions in industry and in the money market, than if he confines himself to bond issues alone. It is just as reasonable that intelligent selections of high grade stocks can be made as high grade bonds. It would not have been wise for an investor seeking security of principal and permanency of income to have bought Missouri Pacific stock or Toledo, St. Louis & Western preferred in 1908, merely because they were dividend payers and looked "cheap," but there would have been no mistake at that time in buying Louisville & Nashville, Norfolk & Western or Southern Pacific stocks. While such stocks as the latter fluctuate to considerable extent and rise too high during periods of speculation, they have back of them enormous equities and growing earning power, and as this earning power improves from decade to decade, the equities and income of such stocks improve in logical ratio.

The same principle applies to the selection of bond issues which are convertible into stocks. For example, should the Norfolk & Western Railway increase its net income during the next ten years in even half as great a

ratio as it has during the past ten years, the common stock of the road will probably be paying a much higher dividend than it now pays and might be selling where Louisville & Nashville now does. In such a case the convertible 4 per cent bonds would sell in the same neighborhood as the stock, and before they were retired or called the holder could at any time convert into the stock and get the benefit of increased income. If, on the other hand, the system should fail to increase its earning power, the bond would maintain its original value as a fixed 4 per cent investment.

Of course, in throwing out these suggestions, I have not forgotten that many other factors enter into the investment problem just as soon as we go outside the field of the issues which respond to the money market exclusively. And here it is that the question of selection comes in in the strongest way. Every convertible bond is not to be classed as desirable for investment purposes, and very few common stocks are.

One of the vital matters to be borne in mind is that of location of the company in which the investor places his funds. Thus, even in confining himself to railroad issues alone, the investor should give due regard to the geographical location of the different roads. Many railroad systems are primarily dependent upon special types of industry for their success. Thus, roads like the Norfolk & Western, Chesapeake & Ohio, Kanawha & Michigan and Hocking Valley are to a preponderant extent dependent upon conditions in the soft coal industry for their stability and profits; others, such

as St. Paul, Rock Island, Northern Pacific and Burlington depend to large extent upon agricultural conditions in the West; still others, like New Haven, New York Central, Lackawanna, Long Island, and Philadelphia, Baltimore & Washington rely largely upon passenger business; while roads operating in the Southern states depend upon industrial conditions in that section for their earnings and dividends.

A full discussion, however, of the question of investment distribution takes us entirely outside of the railroad field. This is touched upon in the following pages,

V

Applying the Principles

BEARING in mind the two primary price factors already referred to, we are now in a position to discuss a more specific classification of investments. For while all bonds and stocks respond to either the general price of money or credit, whether they are governments, municipals, railroad issues, public utility issues or other, or to more specific influences as revealed by earning power, yet the different types of undertakings cannot be measured by the same method of analysis. In other words, earning power of certain industrials may be affected by far different things than earning power of railroads; the income of public utilities may be affected by influences distinct from both those affecting railroads and industrials; while the credit back of other issues, such as municipals and governments, must always require an analysis of its own.

Without going into too extended a discussion of the subject, we will begin by enumerating the several types of corporate and other security investments which are generally marketable in the United States. They can be classified as follows:

1. **Government and Municipal Issues:**
 - a. United States and foreign government bonds;
 - b. State obligations;
 - c. City and town obligations;
 - d. County bonds;
2. **Railroad Securities:**
 - a. Railroad bonds;
 - b. Railroad guaranteed stocks;
 - c. Preferred stocks;
 - d. Common stocks;
3. **Public Utility Securities:**
 - a. Gas and electric light bonds and stocks;
 - b. Traction bonds and stocks;
 - c. Water works and water power bonds;
 - d. Telegraph and telephone bonds and stocks;
4. **Industrial Securities:**
 - a. Industrial bonds;
 - b. Industrial preferred stocks;
 - c. Industrial common stocks;
5. **Banking and Financial Institutions:**
 - a. National bank stocks;
 - b. State bank stocks;
 - c. Trust company stocks;
 - d. Title, guaranty, insurance stocks, etc.;
6. **Real Estate and Land Investments:**
 - a. Building concerns;
 - b. Urban real estate issues;
 - c. Agricultural loans, farm mortgages, etc.;
 - d. Irrigation and developing companies.

Included in the above classification are practically all the American corporation security investments worthy of the name. In each of the classes there are many is-

sues which respond exclusively to the prevailing rate for money, and are so well secured as to be immune from changes in trade conditions, ordinary political events, depressions, etc. But there are also in each class a vast number of issues which do, to more or less degree, respond to specific influences which are characteristic of their class alone.

For example, take government and municipal issues. A large majority of municipal bonds in the United States are on a high investment plane; they are so well protected by legislative enactment that only changes in the money rate and the general price for capital will affect their values. But this is not true in all cases, and there are many instances which can be named where municipal securities have defaulted or have depreciated greatly in price, as a result of over-expansion of municipal debts, land booms, etc. And in the field of government issues we have instances enough in very recent years of great changes in value resulting from specific influences. A decade ago, the bonds of the Russian government were being offered in New York at very high figures, while those of Japan went begging. But today Japanese bonds sell far higher and Russian bonds far lower than at that time. Mexican bonds a generation ago could not find any market in New York, but nowadays they are held by a large class of careful investors. Political changes have brought these things about, and thus, in judging securities of this particular type, the political factor is the most important thing to take into consideration. And when we consider the investment position of United

States bonds, the legislative factor is of course the prime one. United States bonds do not sell twenty points higher than British consols because the credit of this country is better than that of Great Britain, but simply because our National Bank Act requires that these bonds be used for bank circulation. This law gives them a high value, which would at once be lost should the law be repealed. Left by themselves, United States bonds would respond to the general interest rate, or money-rate factor, just as British consols or French rentes do.

In the railroad field, we have already discussed, in a brief way, the factors which influence the prices of ordinary stocks and bonds. The earning power of the property is the primary influence here, and a study of this earning power leads us, of course, into a complete analysis of the properties themselves, their past record, their present management, the location of the roads, their alliances, the character of their tonnage, efficiency of operation, etc. Of course, political factors have their influence with the railroads, just as crop conditions have, but the management of the business is the first thing to be considered.

In industrial securities there are various questions, which affect different types of undertakings in different degrees. Industrial concerns are of so many different types, that no general fixed rule for ascertaining values can be applied here as completely as in the case of the railroads. Character of management is of first importance; type of business is equally important. Past records, advantages over possible competitors, such as the posses-

sion of raw materials, control over markets, protection by means of tariffs and other forms of monopoly, are the things to take into consideration. As in all other cases, the political factor comes in here for due consideration.

Public utility securities are, in a sense, in a class by themselves. Unlike the railroad field, we do not first turn to earnings when examining a public utility enterprise. The main thing which interests us is the franchise. Knowing the nature of that, we then examine the location of the property, the population growth, the geographical advantages which may bear on future growth, etc. But we also consider very carefully the political side; for a franchise, even when exclusive, may not in time be such a valuable thing after all. Taxation can squeeze the value out of a franchise if public sentiment so decrees.

Securities of banking and financial institutions in modern times have opened a wide field for investment. The records of growth in this line of business in the United States during the past twenty years are simply marvelous. When passing upon securities of this type, we of course consider the location, character of management, past record, general financial strength, alliances with other interests, etc.

Real estate and land investments are in a class by themselves, and in this field the pitfalls for the real investor are even more numerous than in other lines. Urban real estate loans carefully selected are among the very best of investments, while farm mortgages, unless selected with unusual care, are among the most dangerous. The latter can also be said of irrigation and development projects.

It will be realized when this very broad field of investment is considered, that it offers wide scope for diversification. It also requires the greatest possible care and study in the matter of selection. But when proper principles are followed in the matters of distribution and selection, the reward is well worth the trouble. If an investor confines his capital entirely to one class, such as railroad issues, even though he carefully distributes his risks and selects different types of bonds or stocks within this field, he may find that after all, especially during periods of panic or depression, his average values have declined, and his income has been cut down. But if he uses equal care, and also selects issues in one of the other fields, he will be surprised to find that after all his principal has been kept intact and his income maintained. To illustrate this take the panic period of 1907 and 1908. The man who held only railroad issues saw the earnings of all his properties drop perpendicularly, and the quotations on his stocks and bonds dropped with them. But if a portion of his principal had been in good public utility bonds, carefully selected, he would have been in a much stronger position. As the records show, while steam railroad earnings dropped frightfully during that period, the earnings of all the best public utility enterprises actually increased. American Telephone & Telegraph reported the best results of its history during 1908; many lighting and gas companies in the centers of population did the same. The panic had no adverse effect whatever on their operations.

Having briefly outlined the main principles of proper

investment distribution, I append below an example of how such principles might be applied in a limited way, to a fund of \$100,000. Even when applied in this incomplete way, the investor limits the risk to a very large degree, while putting himself in position to receive the benefit to some extent in the growth in value of equities:

Group I. Railroad Issues—a. Bonds.

	Price.	Cost.
\$5,000 Atchison Trans-Short Line 4s.....at	94	\$4,700
5,000 Illinois Cent. refunding 4s.....at	96	4,800
5,000 Lake Shore 4s.....at	93	4,650
5,000 Reading-Jer. Cent. 4s.....at	98	4,900

b. Stocks.

5,000 Pennsylvania R. R. stock.....at	122	6,100
5,000 Norfolk & Western stock.....at	107	5,350
5,000 Kansas City Southern preferred.....at	60	3,000

Group II. Industrial Issues—a. Bonds.

\$5,000 Armour Real Est. 4½s.....at	92	\$4,600
5,000 du Pont Powder 4½s.....at	85	4,250
5,000 Vir-Car. Chem. 5s.....at	100	5,000

b. Stocks.

5,000 Amer. Sugar preferred.....at	120	6,000
5,000 Inter. Harvester preferred.....at	120	6,000

Group III. Public Utilities—a. Bonds.

\$5,000 Amer. Tel. & Tel. conv. 4s.....at	110	\$5,500
5,000 N. Y. Gas, El. Lgt. & Power 4s.....at	88	4,400
5,000 Minn. Gen. Electric 5s.....at	100	5,000

b. Stocks.

5,000 Laclede Gas stock.....at	105	5,250
5,000 Amer. Light & Traction pfd.....at	105	5,250

Group IV. Municipals.

\$5,000 New York City 4½s of 1917 or 1960.....at	103	\$5,150
5,000 Denver City 5s of 1919.....at	102	5,100
5,000 Chicago City 4s.....at	100	4,000

(Prices are those of May, 1912.)

The above scheme of investment embraces many elements of strength and relatively few weaknesses. It will be noted that the distribution over the different groups is broad; about 35% being confined to railroad stocks and bonds, about 25% to industrial issues, about 25% to public utilities and about 15% to municipals. The subdivisions are also carefully worked out. In the railroad group due regard is given to location as well as to the type of the security itself. Thus, the seven issues included have their own distinct elements of strength, and are broadly distributed. One is located in the far West, being dependent upon conditions in that section; another is secured on a standard property in the Central States (Illinois Central); a third on the great Vanderbilt lines; another on the anthracite coal industry; another on a soft coal road; another on the Pennsylvania system, and another on a road extending from Kansas City to the Gulf. No broader distribution, confined to the borders of the United States, could be made, as far as railroad issues are concerned.

In the Industrial Group every security suggested is independently based on distinct industries, located in particular parts of the country, and responsive in large degree to distinct conditions. The same facts apply to the Public Utilities suggested, while the municipal suggestions are distributed between the East and the West.

The advantages of an investment arrangement of this kind are not confined to the question of security of principal alone. While the fund is so distributed that the average value of the principal should be preserved in

good and bad times, and where the higher class bond issue may tend to decline, increasing earnings will cause the stock issues to rise, and vice versa, the distribution takes into account the yield on the money also. The above list would represent a market cost at the present time of nearly \$100,000 on which the net average yield would be about 5%. Had the fund been placed exclusively in railroad or municipal issues, no greater assurance of the integrity of the principal could have been secured, and the yield would probably not average over $4\frac{1}{4}\%$. Compare this arrangement with the list of "high-grade" railroad bonds presented in Chapter II., showing a yield of less than 4%.

Another advantageous feature in the above exhibit is that the issues are all listed and have a ready market.

VI

Further Application of Sound Principles

I HAVE already emphasized the disadvantages of investing all one's capital in long term "high-grade" railroad issues. These comments may bring forth some criticism, many people saying that if a bond is absolutely secure and there is no doubt of the principal ultimately being paid, then it matters not what the market value of that bond may be at any time prior to maturity.

But in most cases it matters a great deal. Of course, if an institution, such as a savings bank, buys bonds with the positive intention of holding them until they mature, it need not be disturbed about temporary declines in market value; but not so the average investor. I will ask any investor who reads this book, if he is altogether satisfied with his investment, made ten years ago, in Illinois Central 4s, then selling at 114½, and now selling at 100. If he is, then all I can say is that he is a very peculiar person. I know that I would not be satisfied.

Another point that has been raised is that while some high-grade bonds have declined during the past ten years from the abnormally high prices of 1902, yet all have not, and it is therefore claimed that there is no reason to assume that this tendency towards lower market prices will continue during the decade to come.

Of course, all high-grade bonds have not declined. Those issues of comparatively short maturity, which in 1902 were selling in the neighborhood of their par value and below, have not declined. And they should not decline, because their redemption day is not far off. Take Baltimore and Ohio prior lien 3½s. In 1902 they sold at an average price of about 91½; now the same bonds sell at 93. They were high-grade ten years ago; they are high-grade now. But during the decade the approaching maturity has been an increasing factor in steadying their market price, and in spite of the world wide tendency for issues of much longer maturity to decline, these Baltimore and Ohio 3½s have advanced. They are likely to continue their advance quite steadily during the next thirteen years, until they mature at par in 1925. Thus, for a 3½ per cent "prime" railroad issue, there is probably little better than Baltimore and Ohio 3½s.

In time, but not during the present decade, nor for a long time after, issues like C. B. & Q. 3½s, New York Central 3½s, Lake Shore 3½s, etc., will begin to respond to the same special influence, and the day will surely come when these bonds will be most desirable investment purchases. But the fact must not be overlooked that before that day arrives, most of us will have been a long time dead.

While high-grade bonds of short maturity, bearing low rates of interest, are usually most attractive investments, those bearing higher rates do not look so attractive. A man buys a 6 per cent bond, maturing in ten or twelve years, and pays 115 for it. At this price the yield, as-

suming that the bond will be paid off at par, would be about $4\frac{1}{4}$ per cent per annum. The investor must remember that the premium of 15 per cent which he has paid, will never come back to him, and that he must deduct it from the interest he receives from year to year. But this is, at best, a most unsatisfactory situation, and the average investor will find it much more desirable to have a 4 per cent bond at a price below par, and yielding $4\frac{1}{4}$ per cent, than one on which he must set aside each year a portion of his interest for depreciation of his principal.

And then, many investors are prone to overlook the necessity for amortizing their investments in this way. At the beginning, there seems no necessity, as the bonds have a long time to run, and they therefore simply spend their interest each year, until, as the bond nears maturity, they are brought up with a round turn by the fact that the market price has slumped forever, and they see that they have really been living on a part of their principal without realizing it. An illustration of this fact was brought to my attention a short time ago. A certain individual inherited an estate amounting to about \$40,000, all being invested in high-grade railroads, governments and municipals. The investments had been made about twenty years ago, and all the issues had paid their interest regularly. The owner of the bonds had lived on his interest and had paid no attention to the fact that nearly all the issues were steadily nearing maturity. As it happened, every bond on the list (and there were over twenty of them) will mature prior to 1928 and some mature

prior to 1916. Also, every issue was bought at a premium, some as high as 122.

The list looked very attractive, but when the heir of this estate came to have the securities appraised, he found that its value had shrunk from over \$40,000, within the twenty year period, to about \$35,000, and that between the present time and maturity, it would shrink further to about \$33,000. Thus, the original owner had not only been spending all his interest, but in the period named had consumed \$5,000 ($12\frac{1}{2}$ per cent) of his principal also.

Now, if this fund had been invested in bonds of equal security, bearing lower rates of interest, and some real attempt at diversification had been made, the owner would never have made the mistake of living on his principal in this fashion.

To show that my contention regarding the steadily declining tendency of long term, high-grade bonds has not been confined to a few issues during the past ten years, I present on page 47 a price comparison from 1902 to date, embracing fifteen representative long term high-grade railroad issues.

Thus, an original investment of \$16,235.00, on which the yield per annum in interest was \$575, had depreciated no less than \$1,985, or over 12 per cent, within the period named. The total amount of interest received in the ten years was \$5,750, but in order not to encroach on his principal the investor would have to deduct \$1,985 from the interest received, leaving income of but \$3,765 for the decade, or less than $2\frac{1}{2}$ per cent per annum.

Title of bond:	Due	Prices	
		1902	Sept. 1912
Allegheny Valley 4s.....	1942	108	100
Atch. gen. 4s.....	1995	103	97
Balto. & Ohio 4s.....	1948	102	96
Cent. of N. J. 5s.....	1987	136½	118
C. B. & O. Ill. Div. 3½s.....	1949	101	84
C. M. & St. Paul gen. 4s.....	1889	113	97
Chic. & Nor. W. 3½s.....	1987	104	84
Ill. Cent. 1st 4s.....	1951	114½	101¾
Ill. Cent. St. L. Div. 3s.....	1951	87½	72½
Lake Shore 3½s.....	1987	107	88
Lehigh Valley 4½s.....	1940	117½	104½
N. Y. Cent. 3½s.....	1997	106½	85½
Nor. Pacific 4s.....	1997	104½	98
Union Pacific 1st 4s.....	1947	104½	99
West Shore 4s.....	2361	114	98¾

The net result of an investment list of this kind (expressed in \$1,000 bonds) if made ten years ago, is shown by the table below.

	Due	Cost 1902	Selling Value 1912	Loss in Principal
Allegheny Valley 4s.....	1942	\$1,080.00	\$1,000.00	\$80.00
Atch. gen. 4s.....	1995	1,030.00	970.00	60.00
Balto. & Ohio gen. 4s.....	1948	1,020.00	960.00	60.00
Cent. of N. J. 5s.....	1987	1,365.00	1,180.00	185.00
C. B. & O. 3½s.....	1949	1,010.00	840.00	170.00
C. M. & St. Paul 4s.....	1889	1,130.00	970.00	160.00
Chic. & N. W. 3½s.....	1987	1,040.00	840.00	200.00
Ill. Cent. 4s.....	1951	1,145.00	1,017.50	127.50
Ill. Cent. St. L. 3s.....	1951	875.00	725.00	140.00
Lake Shore 3½s.....	1987	1,070.00	880.00	190.00
Lehigh Valley 4½s.....	1940	1,175.00	1,045.00	130.00
N. Y. Cent. 3½s.....	1997	1,065.00	855.00	210.00
Nor. Pacific 4s.....	1997	1,045.00	980.00	65.00
Union Pacific 4s.....	1947	1,045.00	990.00	55.00
West Shore 4s.....	2361	1,140.00	987.50	152.50
Totals.....		\$16,235.00	\$14,250.00	\$1,985.00

It should be remembered that this is not an extreme case. Nearly all the issues included in this list carry either $3\frac{1}{2}$ or 4 per cent. If we made up such a list of 5 and 6 per cent bonds of the same type of maturity, security, etc., the depreciation would be much greater.

I shall next present some examples of results where the factor of maturity is taken into consideration in an intelligent way.

VII

The Factor of Maturity in Bonds

TAKING into consideration the general principles for distributing investments which we have already discussed, it may be wise to present some examples showing the advantages which could have been gained by applying these principles, even in a limited way, ten years ago.

To select an intelligent investment list of bonds in the year 1902 was no easy matter. All bond issues were then ranging at high prices, as there had been a steady advance in quotations for a period of four years, and the world's rates for money had held at low figures for more than half a decade. This was the time when all the really high grade $3\frac{1}{2}$ and 4 per cent bonds of long maturities were selling far above par, and to the average man it seemed practically impossible to select bonds for permanent investment without paying premiums of from five to fifteen points.

Thus, it was a period when the importance of selecting bonds of relatively short maturities applied with particular force. But, as shown by the examples below, even at that time one might have selected good bonds which, during the ten years following, have continuously ranged at

firm prices and are today quoted at better figures than when the purchases were made. The possibility of this is illustrated by Example No. 1, below.

Example 1. Railroad Issues.

	Price Jan., 1903	Price Jan., 1912
Atch., T. & S. F., East. Okla. div. 4s, due 1928	94	96½
Balto. & Ohio, S. W. div. 3½s, due 1925.....	89	91
C. B. & Quincy coll. 4s, due 1921.....	95	98
Col. & So. first 4s, due 1929.....	93	97
Houston & Texas Cent. 4s, due 1921.....	93	95

In all the above cases it will be noted that the prices of January, 1912, were higher than those recorded at the close of 1902. And this fact is chiefly due to the approaching maturity of the issues. It may be true that some of these bonds have improved in actual investment position, and intrinsically are stronger than they were ten years ago, but nevertheless, had they been issues of long maturity, they would today, in practically all cases, be selling at lower figures. The only year in which any material decline has been shown in these issues from the average prices of 1902 and 1903, was in 1907, when, in common with every type of bond, there was a temporary slump during the panic days.

We might present an illustration of the same kind regarding public utility issues. It was much more difficult ten years ago to select good public utilities than it is today, but the following five bonds will serve to illustrate the point.

Example 2. Public Utility Issues.

	Price Jan., 1903	Price Jan., 1912
Detroit City Gas 5s, due 1923.....	96	98
Cleveland, Elyria & W. first 5s, due 1920.....	95	98
Cleve., Painesville & Eastern first 5s, due 1916	96	100
East St. Louis & Sub. coll. 5s, due 1932.....	96	96½
Houston Electric first 5s, due 1925.....	96	99

As in the case of the railroads, all good first liens on public utilities were in 1902 selling at relatively high prices, and this was especially true of those having long maturities. But nevertheless, there were some issues, such as the above, which would have stood a strong investment test, and which, because of the approaching maturities, were pretty certain to enhance in value during the ensuing years.

The same test could be put to other types of bonds with the same general result.

But the average investor, while interested in being shown what he might have done a decade ago, is naturally more interested in the vital question of what may be the wise thing to do at the present time. I therefore submit below lists of good railroad and public utility bonds of relatively short maturities and which can be bought at or under par. It may be pointed out that the present (1912) appears to be a far more opportune time for properly arranging investment lists than has been the case for a good many years. Prices of all investment issues are low today, as compared with earlier years, and while

it may be that we will not see very much higher prices reached for some time, yet selections can clearly be so made that full principal can be maintained, and in some cases, income can be increased. From the list below the investor who is ultra conservative, and wishes to take no speculative risks whatever, can select absolutely safe issues; while the investor who, making the safety of his principal his first thought, wishes to get the benefit, to a certain extent, of enhancement in earning power of the properties covered, during the years to come, can add other issues of more speculative characteristics.

The following list of thirty-five standard representative railroad bonds affords considerable scope for intelligent investment selection. As will be noted, not a single bond in this list is quoted at a premium, and some of the issues are selling well below their par values. They are all bonds of relatively short terms, most of them maturing within twenty-five years.

As for the actual standing and security of these issues, a brief examination of the facts will show how strong they all are. For example, the Eastern Oklahoma 4s of the Atchison system are a first lien on 480 miles of road at \$20,000 per mile; they are a direct obligation of the main system, and for the full ten years have been protected by a very heavy margin of safety. The Brunswick & Western 4s are an underlying lien of the Atlantic Coast Line Railroad, are secured by first mortgage at less than \$9,000 per mile, and have been assumed by the parent company. The Silver Springs, Ocala & Gulf 4s are also an underlying assumed bond of the Atlantic Coast Line

Railroad Bonds.

	Price Sept., 1912
Atchison (East Okla. div.) first 4s, due 1928.....	96
Brunswick & Western gtd. first 4s, due 1938.....	95
Silver Springs, Ocala & Gulf gtd. 4s, due 1918.....	97
Baltimore & Ohio prior lien 3½s, due 1925.....	91
Baltimore & Ohio Pitts. Jc. & M. D. 3½s, due 1925...	87½
Pittsburg & Western first 4s, due 1917.....	97
C. B. & Q. Nebraska Ext. 4s, due 1927.....	98
Chic., Rock Isd. & Pacific refd. 4s, due 1938.....	87
Chic., Rock Isd. & Pacific col. Tr. "P," due 1918.....	95½
C., M., St. Paul & Omaha cons. 3½s, due 1930.....	91
Colorado & Southern first 4s, due 1929.....	94
Cinn., Ind., St. Louis & Chic. first 4s, due 1936.....	96
New York, Lack. & W. Term. & Imp. 4s, due 1923....	98
Del. & Hudson 10-year conv. deben. 4s, due 1916.....	98
Denver & Rio Grande first cons. 4s, due 1936.....	86
Rio Grande Western first trust 4s, due 1939.....	82
St. Paul, Minn. & Man. cons. 4s, due 1933.....	98
St. Paul, Minn. & Man. Montana Ext. first 4s, due 1937	97½
Carbondale & Shawneetown first 4s, due 1923.....	95
Long Island R. R. first cons. 4s, due 1931.....	95
Missouri Pacific trust 5s, due 1917.....	99½
Missouri Pacific first coll. 5s, due 1920.....	97
Central Branch Railway first guar. 4s, due 1919.....	92
Lake Shore & Mich. So. deben. 4s, due 1928.....	92
Lake Shore & Mich. So. deben. 4s, due 1931.....	92
Michigan Central deben. 4s, due 1929.....	88½
Pennsylvania R. R. conv. 3½s, due 1915.....	97½
Sunbury & Lewistown first 4s, due 1936.....	97
Pennsylvania Company guar. 4s, due 1931.....	97
Seaboard Air Line Atl.-Birmingham first 4s, due 1933..	88
Southern Pacific Co. conv. 4s, due 1929.....	94
Central Pacific guar. 3½s, due 1929.....	91
Houston & Texas Central gen. 4s, due 1921.....	95
South Pacific Coast first gtd. 4s, due 1937.....	96
Oregon Shore Line gtd. ref. 4s, due 1929.....	91¾

Railroad and are a first mortgage at less than \$8,000 per mile. The Pittsburg & Western first 4s are an underlying lien on the Baltimore & Ohio system, are limited to only \$3,000 per mile, and are provided for in one of the refunding mortgages of the Baltimore & Ohio. The Cincinnati, Indianapolis, St. Louis & Chicago first 4s are an assumed bond of the Cleveland, Cincinnati, Chicago & St. Louis system, and are very high grade. The Carbondale & Shawneetown first 4s are a divisional lien of the Illinois Central, and are provided for in the latter's St. Louis Division mortgage. The Central Branch Railway first 4s are one of the smaller underlying issues of the Missouri Pacific system and are absolutely secure. The Sunbury & Lewistown first 4s are an underlying divisional issue of the Pennsylvania system. Houston & Texas Central general 4s are a divisional bond of the Southern Pacific and the Oregon Short Line guaranteed refunding 4s are secured by valuable collateral of Union Pacific. In fact, every one of these issues enjoys a high investment position, and they are all rated either "Aaa" or "Aa" in "Moody's Analyses of Railroad Investments."

Of course there are many other good railroad bonds of short maturity, and with equal strength, which might be included in a list for investment selection. But the above have the additional merit of being marketable, and with selling records back of them which add to their attractiveness. In addition to such bonds as these, we find in the railroad field a multitude of equipment issues, most of which mature serially in from one to fifteen years. In

any important investment list, many such short term issues can be wisely included.*

But the above list covers railroad bonds only. There is the wide field of public utility corporation bonds yet to be referred to. I append below a limited list of such, which have the same characteristic of near-by maturity.

Public Utility Bonds.

	Prices 1913
Chicago Railways Co. first 5s, due 1927.....	100
Cleveland Railway first 5s, due 1931.....	100
Cleveland, Painesville & Eastern first 5s, due 1916.....	99
Danville St. Ry. & Light first 5s, due 1925.....	99
Grand Rapids Railway first 5s, due 1916.....	99
Houghton County St. Ry. first 5s, due 1920.....	97
Illinois Central Traction first 5s, due 1933.....	94
Lake Shore Electric cons. 5s, due 1923.....	95
Mil. Elec. Ry. & Light ref. and Ext. 4½s, due 1931...	94½
Omaha & Council Bluffs Ry. & Bge. first 5s, due 1928..	98
Portland (Ore.) Ry. first and ref. 5s, due 1930.....	99
Wheeling Traction Co. first 5s, due 1931.....	96
Altoona Gas Co. first 5s, due 1932.....	97
Detroit City Gas Co. 5s, due 1923.....	100
Houghton County Elec. Light first 5s, due 1927.....	96
Oklahoma Gas & Electric first 5s, due 1929.....	97
Portland (Me.) Electric Co. first 5s, due 1926.....	98½
Amer. Tel. & Tel. coll. 4s, due 1929.....	91
Pacific Tel. & Tel. coll. 5s, due 1937.....	100

The foregoing list is shorter than that shown for the railroads and of course the security of some of the issues

*A later chapter discusses the characteristics of short term notes and equipment issues.

is not so high. But it is less easy to select a large line of public utility issues of great strength and which sell materially below their par value. Most public utility bonds carry 5 per cent interest, and the majority of the strongest ones of course sell either close to their par value or at a premium. But, as in the case of all other bonds, those issues whose maturity is not too far away, are, other things being equal, the most desirable investments.

PART TWO
INVESTING FOR PROFIT

VIII

Taking Advantage of Potential Possibilities

THE term, "investing for profit," as here used, should be construed as meaning any method of investment where the motive is not wholly confined to securing a fixed return on the principal originally invested, but also takes into consideration the possibilities of increase in both interest and principal as the time goes by. Thus, the man who buys a stock, for example, like Baltimore & Ohio, on the theory that in due course the dividend rate will be increased and consequently the market value of the principal enhanced, is to be placed in this class. Such a man is to a certain extent speculating on the future, although if his judgment is sound, and his investment selections made at the proper periods, he is pretty sure to meet with a fair measure of success.

For investing of this character, the ideal security is usually the common stock of a good railroad. It is true that sometimes preferred stocks, and certain types of bonds, such as convertible issues, can be selected for operations in this field, but here the opportunities are necessarily limited. If it is determined to select a preferred stock, one must usually be found which at the time is

either not paying its full dividend, or is earning only a moderate margin above the dividend requirement. Under ordinary conditions, there cannot be much hope of a steady and large advance in an issue of this type which is already paying its full dividend rate and standing on a high investment plane. In other words, the limitation of both dividend and value is fixed, and beyond a certain point little or no "profit" can be secured on such an issue. It is true, of course, that in times of extreme depression or of panic, many attractive purchases can be made in the preferred stock field, as even the highest grade issues of both stocks and bonds then generally range well below normal values. But ordinarily, such schemes of investment must be mainly confined to common stocks.

When we discuss the investment of funds in common stocks, we are naturally bordering pretty closely on speculation, even though it may be speculation of an extremely conservative type. But any one familiar with the subject will realize that there are many standard railroad stocks in the market with long dividend records back of them which can fairly be classed as sound investments. And in the following exhibit I have selected a number of representative common stocks of railroads, the majority of which have been steady dividend payers for many years, and which are in large part held by people who never "speculate," and buy simply for the return on the money rather than in the hope of unusual appreciation in price. A rational investment distribution plan would to a large extent offset the dangers involved in confining one's entire capital to one or two issues.

It will be seen from this table that anyone placing a given sum in equal amounts in the twenty stocks listed, at the high prices which prevailed ten years ago, would have done exceedingly well, and in that time would not only have materially increased his income, but added something to his principal as well. Of course, this list includes not only the best issues which could have been selected in 1902, but also includes those active stocks which, in some cases, may not have looked very attractive at that time. By making up a list on this basis, we show that even without exceptional discrimination, an investment fund spread widely over the railroad common stock field, would not have fared so badly.

If we assume that an investor purchased 100 shares each of the following stocks at the *highest prices* prevailing in the boom year 1902, he would have invested in all, about \$321,900. The total net return at the dividend rates then prevailing would have been \$9,750 a year, or a little over 3 per cent. At the high prices of 1911 (after nearly ten years), in spite of the diverse fluctuations of the different stocks—some falling and some rising—his capital would have amounted to \$351,100, and his dividend return, \$15,800, or nearly 5 per cent on the original amount. At average prices of April 1, 1912, his investment would amount in principal to \$332,600, and his return this year would be \$15,700.

On the face of this exhibit it would seem that any investor who had followed this course ten years ago would have done very well indeed. In that time, although he had witnessed some extreme declines during

Twenty Representative Common Railroad Stocks
(Ten Year Record).

	1902	Div.	1911	Div.	Div.	
	High cost	rate	High value	rate	Apr., 1912	rate
		%		%	Value	%
Atchison	\$9,675	4	\$11,675	6	\$10,850	6
At. Coast	18,350	3½	13,925	6	13,900	7
B. & O.	11,575	4	10,975	6	10,600	6
B. R. & P.	12,800	4	12,600	5	10,500	5
Can. Pacific	14,525	5	24,700	10	23,350	10
C. R. R. of N. J.	19,800	8	32,000	12	36,000	12
Ches. & O.	5,750	1	8,675	5	7,825	5
C. M. & St. P.	19,875	7	13,350	7	11,000	5
Chic. & N. W.	27,100	7	15,050	7	12,200	7
Del. & H.	18,450	7	17,500	9	17,125	9
D., L. & W.	27,700	7	57,000	20	56,000	20
Great Nor.	20,300	7	14,000	7	13,350	7
Ill. Cent.	17,350	6	14,700	7	13,175	7
Leh. Valley	7,700	..	18,700	10	16,700	10
L. & N.	15,950	5	16,000	7	15,625	7
N. Y. Central	16,900	5	11,550	5	11,350	5
Nor. Pacific	21,650*	7	13,800	7	12,300	7
Penn. R. R.	14,000	6	13,000	6	12,450	6
So. Pacific	8,125	..	12,650	6	11,200	6
Union Pacific	11,325	4	19,250	10	17,100	10
	<u>\$321,900</u>		<u>\$351,100</u>		<u>\$332,600</u>	

the panic of 1907 and during other general market reactions, yet the result shows a net increase up to last April of \$10,700 in principal, and an enlargement of annual income from \$9,750 to \$15,700.

* For 1904.

But this is not by any means the whole story. As a matter of fact, any investor who had followed this course would have fared far better than this, as the following facts show.

SPECIAL BENEFITS RECEIVED.

More than half the above railroads have, since 1902, accorded their stockholders special benefits in the nature of extra dividends, subscription rights, stock bonuses or "melons," and these benefits have naturally added to the attractiveness of the stocks as investments. For example: In 1905, the Atlantic Coast Line paid an extra dividend of 25 per cent, of which 20 per cent was in "scrip" and 5 per cent in redeemable certificates, since paid off; in 1906, the Buffalo, Rochester & Pittsburg declared a 25 per cent dividend in the stock of the Mahoning Investment Co., thus divorcing its coal properties; in 1908, the Canadian Pacific gave its stockholders the right to subscribe to the extent of 20 per cent of their holdings to new stock at \$120 per share, and in 1911 gave the right to subscribe at \$150 to new stock to the extent of 9 per cent of their holdings; Chicago & Northwestern gave its stockholders subscription rights to take new stock at par in both 1907 and 1910; Chicago, Milwaukee & St. Paul accorded the same privilege to its stockholders in 1907; Great Northern in 1906 paid a dividend of 100 per cent in the Great Northern Ore Certificates and also gave subscription rights at par to the extent of 40 per cent in new stock; Illinois Central in 1907 gave subscription rights to its stockholders for new stock at 115; Delaware, Lacka-

wanna & Western in 1909 gave its stockholders a 15 per cent stock dividend, and permitted them to subscribe at par to the stock of the Delaware, Lackawanna & Western Coal Co., which now pays 10 per cent dividends; Lehigh Valley in 1911 gave its stockholders the right to subscribe to the extent of 50 per cent of their holdings to new stock at par, and also declared an extra dividend of 10 per cent in the stock of the Lehigh Coal Sales Co., which already has sold above \$240 per share; New York Central gave its stockholders the right to subscribe to new stock at par in 1910; Pennsylvania gave similar rights to its stockholders in both 1909 and 1910; Southern Pacific in 1907 gave its common stockholders the right to subscribe at par to its 7 per cent preferred stock, which was called for payment at 115 in 1909, the stockholders being given the privilege of converting into common, or into $4\frac{1}{2}$ per cent bonds, with \$20 in cash on each share; Union Pacific in 1907 gave its stockholders the right to subscribe to the extent of 25 per cent of their holdings to convertible bonds at 90.

Thus, without taking the space in this chapter to work out the actual values received during the past ten years by these stockholders, aside from ordinary dividend payments, it is easily realized that holders of such stocks have been able to secure, on the average, far more than 6 per cent on their money, and today are the owners of a principal sum which has increased much more than the foregoing table indicates.

This result, it will be seen, would have been accomplished by anyone who followed the plan of investing in equal amounts in all of these standard common stocks,

without any particular discrimination or selection. If scientific principles had been followed in the matter of selection and the investment confined to eight or ten of the strongest and most promising issues at that time, the net outcome would have been even more favorable.

While at the present time, possibilities which were present ten years ago in the railroad common stock field, are few and far between, yet intelligent selection of issues in a plan of "investing for profit" can still undoubtedly be made not only in the railroad but also in the industrial and public utility fields.

IX

Investment Cycles

IN the last chapter I presented an exhibit of a ten-year investment in twenty representative common stocks of American railroads, demonstrating that if purchases were made of equal amounts of these stocks at the highest prices reached in the year 1902 (which, in a general way, was the top of the boom period which set in in 1897), the purchaser would today have a considerable increase in his principal, and, during the entire decade, including the extra dividends, "rights" and other benefits which have been disbursed, would have received a return averaging well above 6 per cent on the total investment.

When it is realized that during the past ten years we have been through a panic period and all sorts of things have occurred to affect railroad stock values adversely, such as poor crops for two years, anti-railroad legislation, aggressive "trust-busting," rising cost of operation and declining or horizontal freight and passenger rates, it will be seen that investments in good common stocks of railroads are really pretty good things to have as permanent propositions. For at no time since 1902 has there developed a business situation or period where it could be as-

serted that the railroads have been exceptionally benefited. It is true that the country has grown steadily enough, but so has capitalization grown, and fixed charges today are relatively much higher than they were in 1902.

But while it is interesting to see how investors in railroad common stocks have fared when they have bought issues simply on their individual merits and without regard to general business or investment conditions, and have paid no attention to the effect on values of recurring cycles of prosperity or depression, a far more interesting and useful study is to ascertain how those have fared who *have* given proper attention to those general or fundamental factors which so directly affect security prices over reasonably long periods. One of the main things for every investor to do is to carefully study the fundamental business trend, and endeavor to ascertain the periods when investments should be most wisely purchased and when they should be sold. For there are times when it is clearly foolish for an investor to buy average stocks or bonds, and of course there are other times when the investor is foolish if he does not do some realizing—this latter being particularly true of stock investments.

To illustrate. The year 1902, at the crest of the business and speculative boom, was not a time to buy stocks, but it was a time to do some liquidating. Conversely, the year 1907, after the October panic, was no period for persons to liquidate in, but it was a splendid period for investing. And for six or eight months after the panic, the investment "bargain counter" was daily displayed, and he was a very foolish man who, having the

necessary capital, hesitated to buy good, well-tested securities at that time. Certainly, as far as my position went, for the whole period from October, 1907, to the middle of 1909, I was steadily recommending the purchase of good dividend paying stocks, and well secured short term bonds.

Returning to our illustration in the last chapter, let us take this same list of twenty representative railroad stocks and show what the result would have been to date, in the case of a man who, in addition to the study of intrinsic values, gave proper attention to investment cycles. This man would have clearly recognized the period following the panic as one for making investments aggressively. I present below a table showing the cost of 100 shares of each of the twenty stocks, if purchased on or about January 1, 1908 (after the panic had subsided and confidence was being restored), and also the values of the same stocks on or about January 1, 1910, or two years later; and the recent values.

This exhibit shows how well the investor has fared who, during the past four years has taken into consideration the general business trend as well as the specific worth of the properties themselves. It will be seen that an original investment of \$239,100 in January, 1908, rose in value to \$326,400 by the end of 1909 (or within two years' time), while up to last April the value had been still further increased to \$338,650, and the holder is now receiving in dividends something more than 6½ per cent on his original investment. In other words, his principal

has appreciated over 40% within about four years, and his dividend return has been proportionately enlarged.

	Value Jan., 1908	Value Jan., 1910	Value April, 1912	Present Div. Rate
Atchison	\$6,900	\$12,400	\$11,000	6%
At. Coast	6,850	13,600	14,150	7
Balt. & Ohio	8,100	11,850	10,700	6
B. R. & P.	7,500	10,600	10,500	5
Can. Pacific	15,400	17,700	24,500	10
C. R. R. of N. J. ...	16,500	22,900	38,000	12
Ches. & Ohio	3,000	5,775	8,000	5
C. M. & St. Paul..	10,425	15,100	11,200	5
Chic. & N. W.	13,550	18,400	14,400	7
Del. & Hud.	14,750	18,125	17,500	9
D. L. & W.	42,000	56,000	55,000	20
Great Northern ..	11,600	14,750	13,400	7
Illinois Central ...	12,300	14,900	12,900	7
Lehigh Valley	10,600	10,900	16,500	10
L. & N.	9,125	12,650	15,800	7
N. Y. Central	9,025	12,700	11,300	5
Nor. Pacific	11,750	14,325	12,400	7
Penn. R. R.	10,900	13,225	12,500	6
So. Pacific	7,125	12,100	11,500	6
Union Pacific	11,700	18,400	17,400	10
Totals.....	\$239,100	\$326,400	\$338,650	

But in addition to this, other benefits have accrued. Since the opening of 1908 the Canadian Pacific stockholders have twice received valuable "rights;" in 1910, the Chicago & North Western stockholders received "rights;" in 1909, the Delaware, Lackawanna & Western stockholders received a 15% stock dividend with privilege to

subscribe to the stock of the new Coal Sales Co.; the Lehigh Valley stockholders received "rights" of the same kind last year, and also stock of a Coal Sales Co., which is now selling above \$240; both Pennsylvania and New York Central have given their stockholders subscription rights since the opening of 1908; etc.

So that, as a matter of fact, holders of these stocks have fared a great deal better since the date of purchase than the mere quotations indicate.

But even though the holding of all these stocks which we assume were bought in the beginning of 1908 have rewarded the investor so handsomely, would it have been the very wisest judgment to have kept them all until this time? Was not the end of 1909 a period when considerable liquidation could have been wisely undertaken?

Undoubtedly. Conditions at the end of 1909 were such that a very severe reaction in general business seemed inevitable. The recovery in values had been so pronounced after the panic and the period of speculation in many lines had gone so far, that it did not require much shrewdness to see that security values had, as a rule, reached their highest for a considerable time to come. For the pure speculator, therefore, this was clearly a period when sales should take the place of purchases, and wise "bulls" should switch to the "bear" side of the market. But how about the stock investor; the man who makes it a rule to pay for his holdings and never sell what he does not own? The proper thing for him to have done was to sell those issues which were quoted clearly above their asset values, and keep those which had the surest potential value for

the future. Acting on this theory, the investor would have liquidated the following from the above list:—

Atchison common, then selling at about 124;
Baltimore & Ohio, then selling at about 118;
St. Paul common, then selling at about 151;
Chic. & N. Western, then selling at about 184;
Great Northern, then selling at about 147½;
Illinois Central, then selling at about 149;
New York Central, then selling at about 127;
Northern Pacific, then selling at about 143.

There were good reasons at the end of 1909 and the opening of 1910 for selling all of these stocks at the prices then prevailing. Atchison common was paying out in dividends all that was justified, and the issuing of convertible bonds clearly indicated that the road would not be able to further expand its dividend rate for a good many years. Therefore, 124 was a pretty full price for the stock. Baltimore & Ohio was suffering from the freight rate situation, and it looked as though the maintenance of even 6% would be very doubtful during the following year; St. Paul was spending double its original provision on its Puget Sound extension, and the 7% dividend was even then in jeopardy; Chicago & North Western was selling abnormally high for a 7% stock, even for a bull market; Great Northern and Northern Pacific were ranging at prices not justified by the outlook, and New York Central was clearly paying too high a dividend.

On the other hand, the investor would have been foolish to have disposed of many of the remaining stocks on the list, even though a much lower stock market seemed

to be in sight. The asset value of Atlantic Coast Line was far above its market price; Buffalo, Rochester & Pittsburg seemed to have turned the corner and was entering a more satisfactory period; Canadian Pacific had a demonstrated asset value of far above 200 even at that time, and larger dividends seemed assured for the near future; Central of New Jersey promised to be another Lackawanna, and it would have been foolish to sell it at 230; Lehigh Valley was just entering upon its period of recent prosperity; Louisville & Nashville was steadily adding to its assets without increasing its charges, while both Southern and Union Pacific promised to maintain their strong positions, in spite of temporary set-backs in crops or general business, which might have been expected.

Now, where an investor, in close touch with general business conditions, had done approximately what I have suggested above, and had liquidated at the end of 1909 those stocks which ought to have been liquidated, and kept those which I have enumerated above, he would to-day be in a remarkably healthy condition. Since 1909 all of the stocks which I have suggested as having been wise sales in 1909 or at the opening of 1910 have sold anywhere from 20 to 50 points below the 1909 prices. St. Paul has been down to nearly par; New York Central has been at par; Atchison and Baltimore & Ohio have both been below par; Great Northern has sold below 118 and Northern Pacific at 110. There have been plenty of opportunities to buy back any or all of these issues since the spring of 1910 at prices far lower than those ranging recently.

Of course, most people will say that this is all theory and does not work out in practice. But here and there we find a man who does just this sort of thing, and while he may occasionally make a mistake, in the long run he greatly adds to his principal by taking cognizance of these two great factors in selecting investments, viz., a study of the general trade and commercial cycles, and an intelligent analysis of intrinsic values.

There is no reason why a man who wishes to follow this plan of investment, should take a great deal of risk. If he pays a little too much for a stock of real intrinsic merit (but has bought it in the proper period) all that he has got to do is to hold it as an investment and receive his dividends; in time it will sell up to or above his cost price again.

X

Distribution and Profit Combined

IN the foregoing pages we have discussed to some extent the methods for investing money in common stocks of railroads with a view of benefiting by price changes over reasonably long periods of time. It has been shown that where proper selections of such stocks were made, and the purchasing done in a period when it was clear that most stocks were selling below their intrinsic or asset values, very great advantages have resulted, both in the enhancement of principal and the increase of income.

But while the plan there outlined of course appeals to those who are willing to concentrate their capital in one type or one class of issues, and are also willing to take a measure of chance such as is never absent from pure stock investments, it is not to be assumed that such a plan should be followed by all investors, or that the principles of proper investment diversification should be ignored to take a chance at an opportunity of a semi-speculative type. The examples given are mainly illustrations of what might have been done, and what some investors actually did do in the period mentioned.

At the same time, it is possible to follow principles of sound investment distribution and also take advantage, to

substantial degree, of the rise and fall in general values of securities. In an earlier chapter I outlined a plan for proper investment diversification and presented a classification of several distinct types of issues, from which intelligent selections could be made. The idea of this classification was not only to spread the risk among various types of industry, but also to select different bonds and stocks with a view of having one offset the other to a degree in rises and falls in individual values. It is my purpose now to present a concrete example of how a given investment fund, invested at the right period, and taking into consideration all the general and specific influences, would have fared during the past four years.

The period of a year or more after the panic of 1907 was unquestionably a good time to invest in carefully selected stocks and bonds, not only in the railroad field, but also in the industrial, public utility and other investment markets. Of course, the very best time to make such purchases was in or immediately after the panic, but panic periods are not seasons when the average man has the courage to do much buying, even though he has the actual money available and knows that things are cheap. In the following example, therefore, I have selected July 1, 1908, as the date on which the investments were made. By this time general confidence had been fully restored; there was little in sight to warrant lower prices, while there were plenty of factors clearly visible which pointed to a revival in trade and recovery all along the line.

Assuming that the investor had a fund of approxi-

mately \$200,000 to put into securities, he might have distributed his purchases in about the following proportions: 10 per cent in Government or Municipal issues; 20 per cent in railroad bonds; 20 per cent in railroad stocks; 10 per cent in public utility bonds; 10 per cent in public utility stocks; 10 per cent in industrial bonds; 10 per cent in industrial stocks; 10 per cent in bank or trust company stocks.

Following this plan, and taking into consideration all the principles for investment selection which we have been outlining, a result as follows might have been obtained:

<i>Government Issues:</i>		Cost July 1, 1908	Yield per Annum	Value July 1, 1912	Yield per Annum
\$5,000	Japanese Ster. 4½s, due 1925...	\$4,450	\$225	\$4,600	\$225
5,000	Chicago Wor., Fr. 4s, due 1921.	5,000	200	5,000	200
5,000	Seattle City 4s, due 1925.....	4,850	200	4,900	200
5,000	Berlin 3½s, op. after 1909.....	4,600	175	4,650	175
<i>Railroad Bonds:</i>					
\$5,000	Atch. East Okla. 4s, due 1928..	4,800	200	4,800	200
5,000	B. & O. P. Jc. & M. D. 3½s, due 1925	4,150	175	4,400	175
5,000	C. R. I. & Pcf. ref. 4s, due 1934	4,250	200	4,500	200
5,000	Col. & So. 4s, due 1929.....	4,500	200	4,850	200
5,000	Oreg. Sh. Line ref. 4s, due 1929	4,450	200	4,725	200
5,000	Reading-J. Cent. 4s, due 1951..	4,700	200	4,900	200
5,000	Long Island gen. 4s, due 1938..	4,500	200	4,700	200
5,000	Lake Shore deb. 4s, due 1928..	4,550	200	4,700	200
<i>Railroad Stocks:</i>					
\$5,000	Atchison preferred (5%).....	4,550	250	5,175	250
5,000	Norf. & West. pfd. (4%).....	4,000	200	4,600	200
5,000	Reading first pfd. (4%).....	4,100	200	4,550	200
5,000	Union Pac. pfd. (4%).....	4,150	200	4,600	200
5,000	Atchison common	4,050	275	5,450	300
5,000	Baltimore & Ohio common.....	4,300	300	5,337	300
5,000	Canadian Pacific	8,000	350	11,950	500
5,000	Union Pacific common.....	7,100	500	8,600	500

<i>Public Utility Bonds:</i>	Cost July 1, 1908	Yield per Annum	Value July 1, 1912	Yield per Annum
\$5,000 Detroit City Gas 5s, due 1923..	4,900	250	5,050	250
5,000 Am. Tel. & Tel. coll. 4s, due 1929	4,300	200	4,550	200
5,000 Houghton Co. St. Ry. 5s, due 1920	4,500	250	4,825	250
5,000 Portland (O.) 1st and ref. 5s..	4,650	250	5,000	250
<i>Public Utility Stocks:</i>				
\$5,000 Am. Light & Traction pfd.....	4,700	300	5,400	300
5,000 Laclede Gas pfd.....	3,750	250	4,900	250
5,000 General Elec. common.....	6,500	400	8,300	400
5,000 Minneapolis Gen. Elec. pfd....	5,000	300	5,350	300
<i>Industrial Bonds:</i>				
\$5,000 du Pont Powder 4½s, due 1936.	3,850	225	4,550	225
5,000 U. S. Realty & Imp. 5s, due 1924	4,000	250	4,450	250
5,000 U. S. Steel Corp. 5s, due 1963.	4,850	250	5,150	250
5,000 Fairmont Coal 5s, due 1931....	4,550	250	4,850	250
<i>Industrial Stocks:</i>				
\$5,000 U. S. Steel pfd.....	5,100	350	5,600	350
5,000 Inter. Harvester pfd.....	5,050	350	6,050	350
5,000 Virginia Chem. pfd.....	4,950	400	6,000	400
5,000 Am. Car & Foundry pfd.....	4,850	350	5,800	350
<i>Bank and Trust Company Stocks:</i>				
\$2,000 (par) Astor Trust (N. Y.)....	5,800	...	7,200	160
2,000 (par) Equitable Tr. (N. Y.)...	7,300	320	11,000	480
2,000 (par) First Nat. Bk. (Chicago).	7,600	240	8,920	320
2,000 (par) Shawmut Bk. (Boston)..	5,800	360	8,800	360
Totals.....	\$197,050	\$10,195	\$228,732	\$10,770

Here we find an investment scheme for about \$200,000 which meets every test as far as wide distribution is concerned; measures up to exacting conditions as to security; yielded at the start a very substantial return on the investment, etc. The diversification is a wide one, as it is di-

vided between five distinct classes of investment issues ; these classes are sub-divided into proper proportions of bonds and stocks ; and the different issues themselves have in nearly all cases been selected because of their independent and individual characteristics of strength. In the government issues, the risk is spread into different countries, and those confined to the United States are separated widely in a geographical sense ; the railroad bonds in every case, are of separate systems, and are widely distributed ; this is also largely true of the railroad stocks ; the public utility issues are divided properly between gas, electric light, street railway and telephone companies ; the industrial issues represent widely diversified undertakings, etc. ; while the bank stocks are selected from great commercial centers like New York, Chicago and Boston.

With this wide selection, the risk of loss has been reduced to a minimum, while the investor has been put in position where he can, to some extent, get the benefit of favorable developments in a wide field of human activity. Selected at a season when all well-tested securities were reasonably cheap, it will be noted that the results attained have been most satisfactory. Not only has the aggregate principal appreciated from \$197,050 to \$228,732, but the income, which was \$10,195, or over 5 per cent at the time of purchase, has increased to \$10,770, which is equal to nearly $5\frac{1}{2}$ per cent on the original cost, or $4\frac{7}{8}$ per cent on the present value. In addition within this four year period "rights" have twice been given to Canadian Pacific stockholders.

How much more satisfactory is an investment plan of

this kind, than one where the investor confines himself entirely to "savings bank" issues or other so-called long term "high-grade bonds." We have already pointed out in previous chapters how unsatisfactory have been results where investors have made no intelligent efforts at distribution, and have shown that during the past decade, very heavy losses in principal have been thus experienced.

While the foregoing exhibit is in the nature of a "past performance," it is fully as true today that scientific distribution plans can be worked out for the future; and in later chapters I shall attempt to present some concrete suggestions along this line.

XI

Plans for Investment of Moderate Sums

IN the last chapter I went into a somewhat extended discussion of the proper methods for so diversifying investment lists, and so selecting certain types of investments as to insure the entire safety of the principal sum, and also to take advantage, within reason, of appreciation in market values, and increases in dividend returns. An elaborate example was presented of an investment scheme covering about \$200,000, which, if carried out four years ago, would in the meanwhile have added about 15 per cent to the investor's total principal and also increased his interest and dividend yield materially.

I will now present several plans for proper investment diversification, for moderate sums, with the same ends in view, viz., to insure security of principal as a first consideration; to offset the effects of possible depreciation of principal as a second consideration; and to benefit in the future by possible appreciation of principal and enlarged dividend yield.

Of course, the fact must not be overlooked that there are seasons when it is usually unwise to do much new investing of any type, just as there are other periods when

a general overhauling of investment lists is most advisable. The present time cannot be said to be absolutely ideal in either respect, but nevertheless it is much better than that in the end of 1909. As far as pure bond investments are concerned, the present period is probably about as good as any that we are likely to have within the next two or three years, provided intelligent selections are made. In the stock investment field, the opportunities are fair today, although of course, not of the very best.

1. *Suggested plan for the investment of \$10,000, integrity of principal being the exclusive consideration.*

An investment of this kind might wisely be divided between railroad bonds, public utility bonds and industrial bonds, as follows:

	Price of Sept., 1913	Cost
\$2,000 Oregon Short Line ref. 4s, due 1929...at 92		\$1,840
2,000 Seaboard Air Line first 4s, due 1950...at 86		1,720
2,000 Lake Shore debent. 4s, due 1928.....at 92½		1,850
2,000 Amer. Tel. & Tel. col. 4s, due 1920...at 90		1,800
2,000 du Pont Powder, 4½s, due 1936.....at 88		1,760

The above arrangement would yield an income of \$410 per year on a net investment of \$8,970. All of the bonds except one have comparatively nearby maturities, and, regardless of fluctuations in the general market interest rate, should easily enough hold their present value, and in time work up to par. The Seaboard Air Line first 4s may be called at par at any time, and most likely will be within the next five years. The du Pont Powder bonds can be called at 110.

Having made the above selections the investor would

still have cash left over of \$1,030, which could be employed in buying another bond of slightly more speculative value, if desired, or put into a strong dividend paying stock. In any event, if the above list were held until maturity there would surely be an appreciation in principal of \$1,030 on the ten bonds listed above, and the extra bond or stock purchase could be regarded as the investment of a "potential profit."

2. *Suggested plan for the investment of \$25,000, integrity of principal being the first consideration, but a desire for a larger income yield, and fair possibilities of appreciation also being considered.*

A sum invested under these conditions might wisely be distributed at the present time as follows:

	Price of Sept., 1912	Cost
<i>Railroad Bonds:</i>		
\$3,000 Rio Grande Western 1st 4s due 1939..at	83	\$2,490
3,000 Long Island R. R. cons. 4s, due 1931..at	95	2,850
<i>Railroad Stocks:</i>		
\$3,000 Northern Pac. stock (7%).....at	126	\$3,780
3,000 Baltimore & Ohio stock (6%).....at	108	3,240
<i>Public Utility Bonds:</i>		
\$3,000 Cal. Gas & El. ref. 5s, due 1937.....at	96	\$2,880
3,000 N. Y. Gas & El. H. & P. 4s, due 1949.at	88	2,640
<i>Industrial Bonds:</i>		
\$3,000 U. S. Realty & Imp. 5s, due.....at	90	\$2,700
3,000 Armour Real Estate 4½s, due.....at	91	2,730
1,000 Fairmont Coal 5s, due 1931.....at	96	960

Here would be a list with a par value of \$25,000—costing in all \$24,270, and yielding \$1,235 per annum. The list, it will be noted, is well distributed and the issues are such that the investor could feel entirely secure for an in-

definite period. The bond issues would ultimately work to their par values, while he would have a moderate interest in possible appreciation in the future of some of his principal through his holdings of Northern Pacific and Baltimore & Ohio. The remaining balance of \$730 could be put into either a bond with some possibilities of appreciation, or invested in a few shares of a good railroad or public utility stock.

Probably no more satisfactory scheme for the investment of this sum of money could be devised for the ordinary investor who is dependent on income.

3. *Suggested plan for investment of \$50,000, strength of principal of course being a prime consideration, but possible appreciation also being quite fully considered.*

<i>Railroad Bonds:</i>	Price of Sept., 1912	Cost
\$5,000 Baltimore & Ohio 3½s, due 1925....at	92	\$4,600
5,000 St. Louis & San Fran. gen. 5s, due 1927..at	85	4,250

<i>Railroad Stocks:</i>		
\$5,000 Northern Pacific (7%).....at	128	\$6,400
5,000 Kansas City So. pfd. (4%).....at	60	3,000

<i>Public Utility Bonds:</i>		
\$5,000 Houghton Co. St. Ry. 5s, of 1920....at	96	\$4,800
5,000 Kansas City (Mo.) Gas 5s, due 1925..at	97	4,850

<i>Industrial Bonds:</i>		
\$5,000 Westinghouse Mfg. 5s, due 1931....at	95	\$4,750
5,000 Republic Iron & Steel 5s, of 1940....at	91	4,550
5,000 Bush Terminal 5s, due.....at	97	4,850

<i>Industrial Stocks:</i>		
\$5,000 Amer. Beet Sugar preferred (6%)...at	98	\$4,900
3,000 Railway Steel Spring, pfd. (7%)....at	100	3,000

The above list embraces \$53,000 in par value of securities, which would cost at the present market quotations, about \$49,950. The total yield on this investment would be \$2,735 per annum, or considerably over 5%. Of course, there is a slight speculative element to some of these issues, but they are exceedingly well distributed; the bonds are nearly all of short maturities and the stocks have large potential as well as actual asset values.

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XII

Plans for Investing Larger Sums

THE general principles which we have been laying down in these chapters for intelligent investment selection and distribution, can of course be applied in many ways and for both large and small sums of money. Many investors prefer to take a little more risk than do others in the attempt to diversify their principal. The desire to place oneself in a position where the benefits of possible growth in values will be at least partially received, is very strong. The man who has a considerable capital can of course afford to take this additional risk far more easily than can one with limited funds. It is usually a mistake for an investor whose capital is much under \$25,000 or \$30,000 to invest any part of his principal, even in moderate degree, with a view of seeking chiefly the benefits of unusual appreciation, but where a man has \$100,000 or more, he can sometimes justly give a little more attention to possibilities of profit on his investment without going into the field of speculation to too great an extent. On page 88 I suggest a plan for a sum of this amount:

Suggested plan for the investment of a principal sum of \$100,000, diversification being the primary object, but possibilities of appreciation being considered also.

	Prices of Sept., 1912	Cost
1. Government Issues:		
\$5,000 Japanese Imperial 4½s, due 1925.....at	92	\$4,600
5,000 New York City (new) 4¼s.....at	101	5,050
2. Railroad Bonds:		
\$10,000 Rio Grande Western first 4s, due 1939 at	83	\$8,300
10,000 Kanawha & Michigan second 5s, due 1927	97	9,700
3. Railroad Stocks:		
\$10,000 (100 shares) Norfolk & Western (6%) common	116	11,600
10,000 (100 shares) Northern Pacific (7%) at	126	12,600
4. Public Utility Bonds:		
\$5,000 Virginia Ry. & Power 5s, due 1934...at	96	4,800
5,000 Portland (Oreg.) Ry. first and ref. 5s, due 1930	98	4,950
5. Industrial Bonds:		
\$5,000 Corn Products 5s, due 1934.....at	96	4,800
5,000 United States Realty 5s, due 1924.....at	90	4,500
5,000 Westinghouse 5s, due 1931.....at	95	4,750
5,000 Republic Iron & Steel 5s, due 1940....at	91	4,550
6. Industrial Stocks:		
\$10,000 (100 shares) Railway Steel Spring pfd. (7%)	100	10,000
10,000 (100 shares) Amer. Beet Sugar pfd. (6%)	98	9,800
Total.....		\$100,000

While there is a moderate speculative element to be found in parts of the above list, yet as a whole the issues are to be regarded as fairly high grade, and the chances

of growth in values are very good, as the following comments will indicate.

1. *Government Issues:* Both of these issues are entirely secure. The credit of the Japanese government has been steadily improving since the Russo-Japanese war, and these bonds, which are thoroughly protected in every way, should gradually work towards their par value within the next ten years. It will be noted that they now have but thirteen years to run. The New York City issue, of course, stands on a high investment plane.

2. *Railroad Bonds:* The Rio Grande Western first 4s, due 1939, are an absolute first lien on the main lines of the Denver & Rio Grande system from Crevasse, Col., to Ogden, Utah. This line has great strategical value, passing through Salt Lake City, and forming the connection of the original Denver & Rio Grande Railroad with the Western Pacific, the Southern Pacific and the Oregon Lines of the Union Pacific system. The bonds are followed by two junior liens. The Kanawha & Michigan second 5s have only fifteen years to run, and the earnings of the road give the issue a margin of safety of 70 per cent. I regard both of these bonds as "high-grade" and believe they will tend to rise considerably in value during the next few years.

3. *Railroad Stocks:* The future outlook of Norfolk & Western is most favorable. The common stock is rapidly becoming a prime investment issue, and in the course of a few years should be raised to a still higher dividend basis. As for Northern Pacific, I think it is

probably as sure of maintaining its 7 per cent. dividend as is Chicago & North Western, which sells fifteen points higher. It is an attractive investment of its class.

4. *Public Utility Bonds:* While not of the highest grade, the Virginia Railway & Power 5s, due 1934, are excellently secured, and the equity back of them is steadily growing. They have but twenty-two years to run, which is an argument in their favor. Portland Railway refunding 5s are really a very strong bond.

5. *Industrial Bonds:* Each of the issues included in this classification has features of strength to commend it. They are all of relatively short maturities, return a large yield, and are protected by liberal margins of safety.

6. *Industrial Stocks:* The two industrial preferred stocks included above seem most attractive investments of this type. Railway Steel Spring preferred should, in the course of a few years, sell nearly as high as United States Steel preferred, while American Beet Sugar preferred is one of the prime 6 per cent. preferred industrials.

This investment scheme, at recent market prices, would amount to \$100,000, and the straight yield on the money would be \$5,337.50 or $5\frac{1}{3}$ per cent. on the cost. It will be noted that the proper precautions in the matter of selecting issues of widely different geographical locations and separate managements, have been strictly adhered to. Of the government issues, one is dependent

on the prosperity of a foreign nation, and the other on the prosperity of the chief American city; the railroad bonds and stocks are widely distributed; the same thing is true of the public utility bonds. Of the industrial bonds and stocks, each issue is on a distinct property and in a distinct line of industry. Further than this, the possibility of profit in the principal is not merely dependent on a trade or industrial boom. Profits will accrue in time, on the bond issues, simply because none of them are a great many years from the date of maturity, and they are nearly all selling today below their face values. Whether we have a boom or a depression, the position of these issues should tend to improve. The stock issues, on the other hand, are all more responsive to trade conditions, but as they are well spread throughout the country and all dependent on different influences, the chances of all of them being equally affected in the event of a depression are very remote.

There are many investors of considerable means, who, while they of course do not forget the importance of thoroughly protecting their principal, are willing to put at least a portion of their capital in semi-speculative issues. They do not want to "speculate" in the ordinary sense of the term, and are far from wishing to buy securities on margin. But what interests them is some method whereby they can get substantial benefit from a general upward swing in prices.

In the following exhibit I have attempted to suggest a plan whereby a fund of about \$100,000 can be safely distributed among various issues which appear, for spe-

cial reasons, to be cheap at the present time, and to have good possibilities of increases in value in the next "bull" movement.

Suggested plan for a "semi-speculative" investment scheme, with a capital sum of \$100,000.

	Prices of Sept., 1912	Cost
1. Railroad Bonds:		
\$10,000 St. Louis & San Francisco gen. lien 5s, due 1927.....	85	\$8,500
10,000 St. Louis, Iron Mountain & So., Unif. and Ref. 4s, due 1929.....	at 78	7,800
2. Railroad Stocks:		
\$10,000 (100 shares) Southern Pacific (6%)	at 112	11,200
10,000 (100 shares) Kansas City So. pfd. (4%)	at 60	6,000
3. Public Utility Stocks:		
\$10,000 (100 shares) Brooklyn Rapid Tran- sit (5%)	at 91	9,100
10,000 (100 shares) Consolidated Gas (6%)	at 145	14,500
4. Public Utility Bonds:		
\$10,000 Inter-Metropolitan 4½s, due 1956....	at 82	8,200
5. Industrial Bonds:		
\$10,000 Colorado Industrial 5s, due 1924....	at 82	8,200
10,000 Distillers Securities 5s, due 1927....	at 75	7,500
6. Industrial Stocks:		
\$10,000 (100 shares) International Har. com. (5%)	at 120	12,000
10,000 (100 shares) Amer. Malting pfd. (4%)	at 65	6,500
Total.....		\$99,500

As in the case of the first exhibit, full consideration is given to the matter of sound investment diversification,

and no very large portion of the total sum is placed in any one issue or in any one type of security. That all of these issues have their special features of attractiveness is shown by the following comments.

1. *Railroad Bonds:* The St. Louis & San Francisco general lien 5s, due 1927, are admittedly a "semi-investment" issue, but they are much stronger in position than was the case a couple of years ago, when they were selling above 90. The system has been making unusual progress on its physical side during the past eighteen months, and its outlook to-day is most favorable. These bonds are protected by a good margin of safety, the yield on the cost is a handsome one, and they have only fifteen years to run. The unifying and refunding 4s of the St. Louis, Iron Mountain & Southern are secured on some of the best mileage in the general system, and now that plans have been arranged for providing for all future financing on this road, the position of these bonds should gradually improve. As they mature in 1929, the present low price makes them attractive.

2. *Railroad Stocks:* Southern Pacific, in spite of its setbacks in earnings during the past year, still has great possibilities, and the crop outlook in its territory this year is unusually favorable. If we have any "bull" movement the coming winter, this stock should rise substantially. The investment position of Kansas City Southern while not of the highest, gives assurance of permanent dividend disbursements.

3. *Public Utility Stocks:* That Brooklyn Rapid Transit will gradually work higher, now that the subway situation has been settled, seems a foregone conclusion. Consolidated Gas, in spite of its rise of the past two years, should continue to be benefited by the growth of New York City, and increase its profits steadily for many years to come.

4. *Public Utility Bonds:* I regard the Interborough-Metropolitan 4½s as a very cheap bond of this type, and as the credit of the company improves (as it will during the coming few years) these bonds should steadily work up towards 90.

5. *Industrial Bonds:* The Colorado Industrial 5s are of course "semi-speculative" or they would not be selling at so low a figure. But nevertheless the fact must not be overlooked that the property back of the issue is of great value, and any real boom in the iron and steel trade will tend to force these bonds up further in price. Distillers Securities 5s I regard as attractive at the price. In the poorest years the interest on the issue has always been easily earned, and the added and growing equity in the U. S. Industrial Alcohol Company will benefit this company materially during the next few years.

6. *Industrial Stocks:* In this classification I have selected International Harvester, in spite of its high price, because of the fact that if the company is forced to dissolve, we are likely to see a further material appreciation in the price. American Malting preferred I con-

sider still cheap as a speculative investment. There are about 20 per cent. in accumulated dividends which must sooner or later be paid, and the asset value of the stock is well above \$75 per share, regardless of these dividends.

The total cost of the purchases, at recent prices, in this list would be \$99,500, and the annual yield would amount to \$5,350, or over $5\frac{1}{3}$ per cent., independently of any appreciation. Of course, the chances of profit are greater in this list than in the other, but naturally the speculative risk is greater. At the same time, the list is so worked out that the ordinary dangers are reduced to a minimum.

PART THREE
CLASSES OF INVESTMENTS

XIII

Some Typical Industrial Bonds

IN selecting industrial bonds for investment, the difficulties are generally far greater than in the case of either steam railroad or public utility issues. In the latter cases it is usually a simple matter to ascertain the character of the property which really stands back of the issue, but in the case of the ordinary industrial bond this is not so often possible. Reports of industrial corporations are frequently too brief and unsatisfactory, as full descriptions of property and assets are not generally presented to the stock or bond holders.

In a very real sense, then, the strength and position of an industrial bond depends on the revealed earning power of the business itself; and the question of stability and permanence in this earning power takes on great importance. A public utility bond is often secure simply because of the franchise value or location, and the margin of safety in earnings is the only vital thing. But franchise values do not apply as a general thing to industrials and benefits due to location and environment are not always of such great importance. The really vital point for the investor to ascertain is the profit producing power, and the things which are related to this, such as

the character of management, business policy, stability of markets, etc.

On the following pages I present brief records of twenty-six typical industrial bonds which are well known in the New York market. It will be noted that as a general thing the yield is in excess of 5% and some issues yield at current prices over 6%. Thus, while the better grade of steam railroad issues usually return from 4 to 4½% to the investor, and public utilities from 4½ to 5¼%, the same general classes of industrials enable the holder to secure a return of from 5 to 6%. It does not necessarily follow, however, that an industrial issue returning 5½% is a weaker bond than some public utility which yields 5%, or some railroad bond which yields but 4¾%. There are many industrial issues with very heavy assets back of them, and protected by very high margins of safety, which yield 5½% or more on the investment. Some of those listed below are in this class.

Adams Express Company collateral debenture 4s; dated March 1, 1898; due March 1, 1948. Outstanding \$12,000,000. These bonds are not a mortgage but are secured by deposit of income-producing bonds of railroads and other companies, the par and market values of which are in excess of the issue. The net earnings in recent years of the Adams Express Company have been from four to six times the amount of its total fixed charges. In event of liquidation these bonds would surely receive their face value. At the recent price of 84 they yield, if held to maturity, nearly 5% on the money.

American Agricultural Chemical Company first mortgage convertible 5s; dated October 1, 1908; due October 1, 1928. Outstanding, \$10,579,000. Convertible at holder's option into preferred stock, at any time. Sinking fund will retire bulk of issue by maturity. Recent net profits of the company have averaged seven times the interest requirement. A very attractive investment at present price of 101, yielding 4.92%.

American Cotton Oil Company 20-year 5s, dated May 1, 1911; due May 1, 1931. Outstanding, \$5,000,000. Callable at 105. These bonds are somewhat speculative and not secured by mortgage, but the average earnings for a series of years show charges earned several times over. The yield at the present price of 94 is about 5½%.

American Writing Paper Company first 5s, dated July 1, 1899; due July 1, 1919. Outstanding, \$13,904,000. Sinking fund of \$100,000 per annum tends to strengthen this issue as it nears maturity. While not in the strong investment class, the bonds appear reasonably cheap at the present price of 90, the yield being 6.80% per annum. This high yield is due to the approaching maturity.

Armour & Co. real estate mortgage 4½s, dated June 1, 1909; due June 1, 1939. Outstanding, \$30,000,000. This is a very high grade bond, being protected by valuable real estate and a heavy earning power. Even in the poor year, 1911, the interest was earned five times over. At the present price of 91½ the yield is 5.05%.

Bethlehem Steel Company first extension mortgage 5s, dated January 2, 1906; due January 1, 1926. Outstanding, \$8,000,000. Callable at 105. These bonds are well secured, although subject to a prior mortgage on a portion of the property. The net profits of the company were in 1911 several times the interest requirement on this and the prior issue. At the present price of 97 the yield is about 5.30%.

Central Leather Company first lien 20-year 5s, dated April 1, 1905; due April 1, 1925. Outstanding, \$36,764,150. The issue is secured by direct or collateral mortgage on all the properties of the company, and after 1913, when about \$3,400,000 debentures are retired, it will be the only bond issue on the property. The earnings of the Central Leather Company fluctuate radically, but the assets back of these bonds seem to justify a favorable opinion regarding them. At the present price of 95 the yield is about 5.55%.

Colorado Fuel & Iron Company general mortgage 5s, dated February 1, 1893; due February 1, 1943. Outstanding, \$5,558,000. Callable at 105. This is a direct obligation of the company, covering the entire property by mortgage, subject only to two small prior liens on a portion. The value of the property covered is many times in excess of the issue, and in normal years the interest on these bonds has been earned four or five times over. They are to be regarded as entirely secure. The current quotation is 100, giving a yield of 5%.

Corn Products Refining Company first mortgage 5s,

dated May 1, 1909; due May 1, 1934. Outstanding, \$5,749,000. Callable at 105. Sinking fund retires 2% of total issue annually. These bonds are subject to two prior liens on portions of the property, but are themselves a direct obligation of the company and are backed by assets far in excess of their face value. The earnings in recent years have usually been from four to five times the interest requirement. At the present price of 94 the bonds yield 5.45% and look attractive.

E. I. du Pont De Nemours Powder Company debenture 4½s, dated June 1, 1906; due June 1, 1936. Callable at 110. Not a mortgage, but have no liens ahead, and are protected by an enormous margin of safety. One of the best industrial issues in the market. They yield, at the present price of 90, about 5¼%.

International Nickel Company 30-year sinking fund 5s, dated April 1, 1902; due April 1, 1932. Outstanding, \$8,162,154. Sinking fund retires \$150,000 annually. The property covered is many times in excess of the mortgage and the earnings in recent years have been from seven to ten times the interest requirements. An attractive investment. Price at present about 100, yielding 5%.

International Paper Company convertible mortgage 5s, dated January 3, 1905; due January 1, 1935. Outstanding, \$5,343,000. Convertible into preferred stock at holder's option on any interest date prior to 1917. Sinking fund retires 2% of issue annually. While subject to

an underlying bond, this issue has a large equity in the property and the earnings recently have equalled two and one-half times the interest requirement. Although more speculative than a number of others named, the bonds are to be looked upon as attractive at the present price of about 91, at which the yield is 5.70%.

International Steam Pump Company first lien 20-year sinking fund 5s, dated September 1, 1909; due September 1, 1929. Outstanding, \$10,000,000. Callable at 103. Sinking fund will retire \$6,000,000 prior to maturity. These bonds are secured by direct or collateral mortgage on all the company's property and should be regarded as entirely secure. Earnings in recent years have been from three to four times interest requirements. At the present quotation of 92 the yield is about 5.75%.

Lackawanna Steel Company first mortgage convertible 5s, dated April 1, 1903; due April 1, 1923. Outstanding, \$15,000,000. Convertible into common stock at par, at the holder's option, at any time prior to April 2, 1915. The bonds are a direct first or collateral mortgage on all the company's property and are protected by a heavy equity. Earnings in recent years have averaged about seven times the interest requirement, and in the poor year 1911 were three times the requirement. An excellent investment at the present price of 94½, the yield being about 5.70%.

Morris & Co. first mortgage sinking fund 4½s, dated July 1, 1909; due July 1, 1939. Outstanding, \$12,100,-

000. Callable at 103. Sinking fund will retire bulk of issue prior to maturity. The physical property back of this issue is well in excess of the mortgage and the earnings during recent years have been several times the interest requirement. At 91, the present price, the bonds yield 5.70%.

National Enameling & Stamping Co. refunding first mortgage real estate 5s, dated June 1, 1909; due June 1, 1929. Outstanding, \$3,278,000. Sinking fund will retire entire issue prior to maturity. Although this business is subject to keen competition, the bonds have large assets back of them, and the earnings generally average from five to six times the interest requirement. At 93 the bonds yield 5.65%.

National Tube Company first mortgage 5s, dated May 1, 1912; due May 1, 1952. Outstanding, \$10,000,000. Callable at 105 on and after November 1, 1916. Sinking fund retires 1% annually after May 1, 1916. These bonds stand on a very strong investment basis, as they are secured on valuable property and are guaranteed principal and interest by the United States Steel Corporation. At 99½, the present price, the yield is over 5%.

Otis Elevator Company convertible debenture 5s, dated April 1, 1910; due April 1, 1920. Outstanding, \$3,500,000. Convertible into common stock at par on and after April 1, 1913. Callable at 102½ on and after April 1, 1913. This is a direct obligation of the com-

pany and there are no mortgages ahead of it. The earnings have recently averaged about eight times the interest requirement. At 100, the present quotation, the yield is 5%.

Railway Steel Springs Company first mortgage Latrobe Plant sinking fund 5s, dated January 1, 1906; due January 1, 1921. Outstanding, \$3,672,000. Callable at 105. Sinking fund retires about \$135,000 per year. The bonds are secured by first lien on an extremely valuable part of the company's property and are protected by a very wide equity. Earnings in recent years have been over six times all interest requirements. A very attractive investment issue at the present price of 98, yielding 5.27%.

Railway Steel Springs Company first mortgage Inter Ocean Plant sinking fund 5s, dated October 1, 1911; due October 1, 1931. Outstanding, \$3,500,000. Callable at 105. Sinking fund beginning in 1914 will retire about \$125,000 per annum. Like the other mortgage, these bonds are protected by a heavy equity and liberal margin of safety. At 96½, which is the present quotation, the return is about 5.25%.

Republic Iron & Steel Co. 10-30 year sinking fund first mortgage 5s, dated April 1, 1910; due April 1, 1940. Outstanding, \$11,305,000. Sinking fund will retire all bonds at or before maturity. The replacement value of the company's property is far in excess of the face value of these bonds and there are no prior or underlying liens.

Earnings even in the poorest years have been several times all interest requirements. An attractive investment at 93, the yield being about 5.50%.

Union Bag & Paper Co. first mortgage 25-year sinking fund 5s, dated June 28, 1905; due July 1, 1930. Outstanding, \$3,861,000. Callable at 105. Sinking fund retires 2% of issue per annum. This issue is secured by a first lien on all the company's property, subject only to a small assumed mortgage. The equity is heavy and earnings have recently averaged over five times the interest requirements. At the current price of about 92½ the yield is about 5.70%.

United States Realty & Improvement Co. 20-year debenture 5s, dated July 1, 1904; due July 1, 1924. Outstanding, \$11,930,000. Callable at 105. These bonds are not secured by mortgage but are a direct obligation, and the equity is a heavy one. Earnings have in recent years steadily averaged from two and one-half to three times the interest requirements. In view of the approaching maturity, the bonds look attractive at 90, at which the yield is 6.25%.

United States Steel Corporation 10-60 year sinking fund 5s, dated April 1, 1903; due April 1, 1963. Outstanding, \$189,346,500. Callable at 110 after April 1, 1913. Sinking fund will retire about \$1,000,000 annually after April 1, 1913. These bonds are protected by a very heavy equity and stand on a strong investment plane. At 102½, the present price, the yield is about 4.90%.

Victor Fuel Company first mortgage sinking fund 5s, dated July 1, 1903; due July 1, 1953. Outstanding, \$1,871,000. Sinking fund, two cents per ton on all coal mined. The bonds are secured by first mortgage on over 21,000 acres of coal lands in Colorado and by valuable collateral. Earnings in recent years have been over four times the interest requirements on this issue and on the Victor-American Fuel bonds. This company is a part of the latter concern. The yield at the present price of 85 is about 6%.

Virginia Carolina Chemical Company first mortgage 15-year 5s, dated November 2, 1908; due December 1, 1923. Callable at 105. Sinking fund retires \$300,000 per annum. The property which this issue covers by first mortgage is far in excess of the amount of the issue and the earnings have always shown a very heavy margin of safety. At present quotation of 98 the bonds yield about 5.20%.

The above are of course only a limited number of industrial issues, selected more or less at random. There are many other good ones in the market. Nevertheless those listed above represent a great diversification of industries, and a composite investment confined to industrials and divided in equal amounts among the above issues would be very well distributed. Such an investment fund would show an average yield of nearly $5\frac{1}{2}\%$, which is certainly very satisfactory in view of the general strength of the issues.

XIV

Selected Public Utility Bonds

IN these times of high commodity prices and general high costs, the temptation to the investor to go into untried fields in order to increase his income is very strong. One of the great fields of investment which has broadened greatly in recent years is the public utility field. Here it is that one can find opportunities for the intelligent investment of funds on a much more attractive basis than can nowadays be secured in the railroad or municipal fields. But while the field is a broad one, the pitfalls are many and dangerous, and because of the lack of completeness and uniformity in the matter of statistical information and other data, it is much more difficult to make safe and intelligent selections than in the more thoroughly established fields.

Nevertheless, it must be agreed that the public utility field is a most inviting one for the modern investor, and as a whole has elements of safety which cannot be found in the railroad or industrial fields. Where a public utility concern has the advantages of location, and gets the steadily accruing benefits of increasing population, the potential value of its securities is often of great moment.

For example, a street railway bond, which, half a dozen years ago, may have been quite speculative, can easily have reached a high investment plane provided that population has increased steadily and the outlook for further growth is strong. Only a decade ago certain of the bond issues on the Brooklyn Rapid Transit system were more or less doubtful. But with the vast growth of traffic of the past ten years the earnings of this system have steadily mounted and all the divisional bonds today are on a strong investment plane, and even the junior issues are entitled to a good investment rating.

Of course, as I pointed out above, discrimination is most important in making investment selections in this field. Not all towns and cities have grown steadily in population in recent years; not all trolley and lighting companies have the franchise strength that is desirable; and a very large number are, as in the case of railroads and industrials, very heavily over-capitalized.

Below I furnish a diversified list of public utility bonds of various types. All of these bonds are not necessarily high grade, although some are; but as a whole, they have genuine investment strength. In view of the attractive prices at which some of these issues sell, and the shortness of maturity of all of them, it seems to me that a very good composite investment scheme could be worked out with this list. There are fifty issues to be described in all, and if one were to divide an investment fund equally between them, he would come out very well indeed, as the summary will show; and he would reduce the risk to a minimum.

American Telephone & Telegraph Co. collateral trust 4s, due July 1, 1929. Interest Jan. & July at Bankers Trust Co., New York. The issue is protected by a heavy margin of safety and valuable collateral, and at the present price of 90 $\frac{1}{4}$ yields (if held to maturity), 4.85 per cent. on the investment. A very safe bond.

Atchison Railway, Light & Power Co. first & refunding 5s, due Nov. 1, 1935. Interest May & Nov. at Federal Trust Co., Boston. Company owns the entire electric light, street railway and gas business of Atchison, Ks., and these bonds are secured by absolute first lien. At 95 the yield is 5.40 per cent. An excellent investment issue, running 23 years from date.

Atlantic City Electric Co. first & refunding 5s, due March 1, 1938. Interest March & Sept. at Girard Trust Co., Philadelphia. Callable at 110 on or after March 1, 1913. This is a subsidiary of the American Gas & Electric Co. which guarantees the bonds. Franchises are strong and equity is heavy. At 93 the yield is 5.50 per cent.

Burlington (Ia.) Railway & Light Co. first 5s, due March 1, 1932. Interest March & Sept. at Equitable Trust Co., New York. Callable at 105. The issue should be regarded as a strong one, as it is secured by first lien on replacement value far in excess of the issue. The yield at 95 is about 5.40 per cent.

Carolina Power & Light Co. first 5s, due Aug. 1, 1938. Interest Feb. & Aug. 1, at Standard Trust Co., New

York. Callable at 105 after Aug. 1, 1913. Company operates the street railway, gas and electric light service of Raleigh, N. C., and is a constituent company of the Electric Bond & Share Co. (General Electric interests). Franchises are strong, and there is a large margin of safety. An attractive bond at the price. At 92 the yield is about 5.65 per cent.

Cincinnati Gas Transportation Co. first 5s, due July 1, 1933. Interest Jan. & July 1, at Cincinnati Trust Co. Callable at 110 after July 1, 1913. Company is leased to Columbia Gas & Electric Co. which guarantees all the bonds. Sixty per cent. of the issue are also guaranteed by the Cincinnati Gas & Electric Co. These bonds are a first mortgage and appear to be well protected. They are, in view of the price, to be regarded as a good investment of this type, although not of the highest grade. At 89 the yield is about 5.90 per cent.

Columbia Railway, Gas & Electric Co. first 5s, due July 1, 1936. Interest Jan. & July at Columbia-Knickerbocker Trust Co., New York. Company owns all the public service properties in Columbia, S. C. Franchises are perpetual and the bonds are protected by a heavy margin of safety. At 94 the yield is about 5.45 per cent.

Consumers Power Co. first lien & refunding 5s, due Jan. 1, 1936. Interest Jan. & July at Harris, Forbes & Co., New York, or Harris Trust & Savings Bank, Chicago. Callable at 105 after January 1, 1916. This company is controlled by the Commonwealth Power, Rail-

way & Light Co., and these bonds are well secured either directly or by deposit of collateral on valuable property. The margin of safety is a heavy one, and the investment position of the issue a strong one. At 96, with 24 years to run, the yield is about 5.30 per cent.

Danville, Urbana & Champaign Railway Co. first 5s, due March 1, 1923. Interest March & Sept. at Northern Trust Co., Chicago. Callable at 105. Company operates electric railways connecting cities of Danville, Urbana & Champaign, Ill., with branches, and the bonds are guaranteed by the Danville Street Railway & Light Co. and the Urbana & Champaign Railway, Gas & Electric Co. A well secured issue. At 96 the yield is about 5.50 per cent.

East St. Louis & Suburban Co. collateral trust 5s, due April 1, 1932. Interest April & Oct. in St. Louis or Philadelphia. Callable at 105. This is a holding company which controls a large system of electric railways in East St. Louis, Ill., and vicinity. These companies have valuable franchises and the bonds are strongly protected by a wide margin of safety. A very attractive investment at the price. At 96 the yield is about 5.35 per cent.

Eastern Oregon Light & Power Co. first & refunding 5s, due October 1, 1929. Interest April & October at Fidelity Trust Co., Philadelphia. Callable at 105. The franchises of this company are strong, and the earnings of the company justify a good rating for the bonds. At 97, the yield is about 5.28 per cent.

Fort Smith Light & Traction Co. first 5s, due March 1, 1936. Interest March & Sept. in New York or Chicago. Callable at 105. Company owns all the street railways in the city of Fort Smith, Ark., and all the electric and gas properties in Fort Smith and Van Buren. The bonds are protected by a wide margin of safety and appear entirely secure. At 91, the yield is about 5.70 per cent.

Fort Worth Power & Light Co. first 5s, due Aug. 1, 1931. Interest Feb. & Aug. in New York or Cleveland. Callable at 105. The bonds are a first lien on the entire electric power and lighting business of Fort Worth, Texas, and are strongly protected. At 96 the yield is about 5.35 per cent.

Helena Light & Railway Co. first 5s, due Sept. 1, 1925. Interest March & Sept. 1, at Columbia-Knickerbocker Trust Co., New York. Callable at 105. Company owns and operates the entire public utility business of Helena, Montana, on franchises which extend to 1926. Sinking fund will retire bulk of issue by maturity. There is a wide margin of safety in earnings, and the bonds should have a good rating. At 90 the yield is over 6 per cent.

Indiana, Columbus & Eastern Traction Co. general & refunding 5s, due May 1, 1926. Interest May & Nov. in Philadelphia. Callable at 105. These bonds are guaranteed by the Ohio Electric Railway and although subject to two prior liens, are in a very good investment position. At 92 the yield is about 6 per cent., as the bonds have only 14 years to run.

Ironwood & Bessemer Railway & Light Co. first 5s, due Feb. 1, 1936. Interest Feb. & Aug. 1, at American Trust Co., Boston. Callable at 104 on and after Feb. 1, 1916. The property back of this issue appears to be amply sufficient, and the company shows a good surplus above charges. At 92 the yield is about 5.65 per cent.

Jackson (Miss.) Light & Traction Co. first 5s, due April 1, 1922. Interest April & Oct. 1, in New York. Callable at 105 on April 1, 1914, and thereafter. This company does the entire electric light, power, gas and street railway business of Jackson, Miss., and the earnings show a heavy margin of safety. At 96 the yield is about 5.55 per cent.

Jacksonville (Fla.) Traction Co. first consolidated 5s, due March 1, 1931. Interest March & Sept. at State Street Trust Co., Boston. Callable at 105. Company does entire street railway business of Jacksonville, Fla., under franchise extending to 1932. The bonds are subject to a first mortgage but enjoy a heavy margin of safety. At 95 they yield about 5.40 per cent.

Johnstown (Pa.) Passenger Railway Co. refunding 4s, due Dec. 1, 1931. Interest June & December at Johnstown Trust Co., Johnstown, Pa. Callable at 105. This company operates street railways in city of Johnstown, Pa., and is one of the constituent companies of the American Railways Co. of Philadelphia. It is itself leased to the Johnstown Traction Co. until 1928. Franchises are perpetual. Although there is a small underlying mortgage, the margin of safety is a liberal one, and the bonds

are very attractive at the price of 89, at which the yield is about 5 per cent.

Kansas City (Mo.) Gas Co. first 5s, due April 1, 1922. Interest April & October in New York. This is one of the constituent companies of the United Gas Improvement Co. of Philadelphia, and the bonds are in a very strong investment position. They have but ten years to run and at 98 yield about 5.25 per cent.

Madison River Power Co. first 5s, due Feb. 1, 1935. Interest Feb. & Aug. at United States Mortgage & Trust Co., of New York. Callable at 105. Company is controlled by Butte Electric & Power Co. which guarantees the bonds. This is to be regarded as a very strong issue, and at the price of 94½ yields about 5.45 per cent.

Michigan United Railways Co. first & refunding 5s, due May 1, 1936. Interest May & November at Columbia-Knickerbocker Trust Co., New York. Callable at 110 after May 1, 1916. While these bonds have several prior liens ahead of them, they are in a strong and steadily improving position. The bonds are entitled to a strong rating. At the present price of 94, the yield is about 5.45 per cent.

Milwaukee Gas Light Co. first 4s, due May 1, 1927. Interest May and November at J. & W. Seligman & Co., New York. This is a well-seasoned bond which is secured by practically first lien on the property of the company, which is one of the constituent companies of

the American Light & Traction Co. Callable at 110. At 91 (the recent price) the yield is about 4.85 per cent.

New Orleans Railway & Light Co. general 4½s, due July 1, 1935. Interest January and July at New York Trust Co., New York. Company is controlled by American Cities Co. and bonds are well protected by a wide margin of safety, although subject to various underlying liens. Callable at 105. At price of 87 the yield is about 5.50 per cent.

New York & Richmond Gas Co. first 5s, due May 1, 1921. Callable at 110. Interest May and November at Liberty National Bank, New York. The issue is secured by first lien, and as it has but nine years to run, is very attractive at the price of 96, the yield being about 5.60 per cent.

Norfolk & Portsmouth Traction Co. first 5s, due June 1, 1936. Interest June and December 1, at Trust Co. of North America, Philadelphia. Callable at 110. This company was in 1911 consolidated with Virginia Railway & Power Co., which has assumed the bonds. They are well protected in equity and earnings, and look attractive at the price of 88, the yield being about 5.90 per cent.

Northern Indiana Gas & Electric Co. first and refunding 5s, due April 1, 1929. Interest April and October in New York and Chicago. Callable at 103. This is one of the constituent companies of the United Gas Improvement Co., and the bonds are strongly protected. At 90, the yield is about 5.90 per cent.

Northern Texas Traction Co. first 5s, due January 1, 1933. Interest January and July in New York or Cleveland. Callable at 105 on or after January 1, 1913. These bonds are prior in lien to the Northern Texas Electric Co. collateral trusts 5s, being secured by first mortgage on the entire electric railway system of the company. The lines are located in Fort Worth and Oak Cliff, Texas, with an interurban line of about 33 miles between Fort Worth and Dallas. The chief franchise runs to 1973. The bonds are protected by a very wide margin of safety, and are to be regarded as an attractive investment at current prices. At the present price of 101 the yield is nearly 5 per cent.

North Carolina Public Service Co. first and refunding 5s, due April 1, 1934. Interest April and October 1 in New York. Callable at 105 on three weeks' notice. Except for a small prior lien on a portion of the property, these bonds are a first mortgage on the entire utility system of Greensboro and High Point, N. C., under franchises which all extend beyond the maturity of the bonds. A sinking fund will provide for a large part of the issue before maturity, and as the bonds are protected by a liberal margin of safety, they seem a desirable investment at the price of about 90, the yield being about 5.80 per cent.

Northern Illinois Light & Traction Co. first 5s, due July 1, 1923. Interest January and July 1 at American Trust Co., Boston. Secured by first lien on entire property of the company, which operates a street railway,

lighting and power plant in Ottawa, Ill., under franchises which extend beyond the redemption date. This is a subsidiary company of the Western Railway & Lighting Co. As the bonds have but 11 years to run, they look attractive at the price of 95, the yield being about 5.65 per cent.

Northern Ohio Traction & Light Co. first consolidated 4s and 5s, due January 1, 1933. Interest January and July in New York or Cleveland. This bond is secured subject to about \$3,000,000 of prior liens, but is protected by a good equity, and stands well as one of the divisional liens of the system. The bulk of the issue carries 4 per cent interest, and at the price of 74 yields 6.20 per cent. As the bonds have but 21 years to run, they look attractive at the price.

Oklahoma Gas & Electric Co. first 20-year 5s, due October 1, 1929. Interest April and October at Harris Trust & Savings Bank, Chicago. Callable at 102½ and interest, on and after October 1, 1914. The issue is secured by first mortgage on all the property of the company, which does the entire gas and electric business of Oklahoma City and vicinity. The earnings show a heavy margin of safety and the franchises extend well beyond the life of the bonds. At the price of 97 the yield is 5.25 per cent., with 17 years to run.

Ottumwa Railway & Light Co. first and refunding 5s, due January 1, 1924. Interest January and July 1 at Central Trust Co. of Illinois, Chicago. Callable at 103

on four weeks' notice. The bonds are well secured on all the property of the company, which embraces the entire public utility business of Ottumwa, Iowa. A small prior lien of \$310,000 due 1921, underlies the issue on a part of the property. The company itself is controlled by the Standard Gas & Electric Co., and the earnings are at present over double the interest on this issue. With only 12 years to run, these bonds look attractive at the present quotation of about 90, the yield being about 6.20 per cent.

Pacific Power & Light Co. first and refunding 5s, due August 1, 1930. Interest February and August at United States Mortgage & Trust Co., New York. Callable at 105 until December 31, 1925; at 104 during 1928; at 102 during 1929, and at 101 from January 1 to June 30, 1930. This company is a consolidation of public utility properties serving about 50 communities in the States of Washington, Oregon and Idaho. It is controlled by the American Power & Light Co., which in turn is controlled by the Electric Bond & Share Co., the latter being controlled by General Electric interests. The franchises are all strong, and there is a good margin of safety in earnings, which will further increase as new construction work is completed. A first-class bond at an attractive price. At 93½ the yield is about 5.55 per cent.

Pensacola Electric Co. first 5s, due August 1, 1931. Interest February and August at Old Colony Trust Co., Boston. Callable at 105 on two weeks' notice. Com-

pany controls the entire street railway and electric lighting business of the city of Pensacola, Fla., under strong franchises which extend beyond the life of these bonds. This issue is secured by first or collateral first lien on the entire property, and the margin of safety is ample to justify a good rating for the bonds. At the price of 90 the yield is about 5.88 per cent.

Peoria Gas & Electric Co. first 5s, due January 1, 1923. Interest January and July at Bankers Trust Co., New York. Callable at 105 on 60 days' notice. Company owns and operates gas and electric light plants in Peoria, Ill., and vicinity, and is controlled by the Peoria Light Co., which in turn is controlled by the Union Railway, Gas & Electric Co. The franchises are all strong, and as these bonds are an underlying issue, secured by absolute first mortgage and are protected by a wide equity, a strong rating is justified. At 100 the bonds yield the full 5 per cent.

Portland (Me.) Electric Co. first sinking fund 5s, due August 1, 1926. Interest February and August 1 at Portland Trust Co., Portland, Me. Callable at 110 and interest on 5 weeks' notice. Sinking fund retires 1 per cent. annually of outstanding bonds. The company operates under strong franchises and the earnings have long shown a wide margin of safety. An attractive investment, running 14 years. At the price of 98½, the yield is 5.15 per cent.

Puget Sound Power Co. first 5s, due June 1, 1933. Interest June and December 1 at Old Colony Trust Co.,

Boston. Callable at 110 on 60 days' notice. Sinking fund retires 1 per cent. of issue annually. Company is controlled by Seattle Electric Co., the latter being controlled by the Puget Sound Light & Traction Co., one of the "Stone & Webster" properties. The bonds are guaranteed by the Seattle Electric Co., and are in a strong investment position. At 99 the yield is about 5.08 per cent.

Southern Power Co. first 5s, due March 1, 1930. Interest March and September 1 at Farmers Loan & Trust Co., New York. Callable at 105 on any interest date. Company supplies power to more than 148 mills in South Carolina, and also does the entire public utility business of Charlotte, S. C., through ownership of the Charlotte Electric Railway, Light & Power Company. The franchises are strong, and these bonds are protected by a first mortgage and a high margin of safety. At 99 the yield is about 5.08 per cent.

Springfield (Mo.) Railway & Light Co. first lien sinking fund 5s, due May 1, 1926. Interest May and November 1 at Guaranty Trust Co., New York. Callable at 102 and interest on any interest date. This is one of the subsidiary companies of the Federal Light & Traction Co., and the bonds are secured by first lien on the entire public utility business of Springfield, Mo. The franchises extend well beyond the maturity of the bonds. At 94, the yield is about 5.65 per cent.

Superior Water, Light & Power Co. first sinking fund 4s, due May 1, 1931. Interest May and November at

United States Mortgage & Trust Co., New York. Callable at 103 and interest. Company controls the public utilities of Superior, Wis., and an interurban line between Superior and Duluth. The franchises are strong, and the bonds protected by a high margin of safety. At 82 the yield is about 5.55 per cent.

Tri-City Railway & Light Co. first and refunding 5s, due July 1, 1930. Interest January and July 1 at Central Trust Co., New York. Callable at 105 on any interest date. Bonds are a first lien on interurban railway extending from Davenport to Muscatine, Iowa, about 30 miles, and also subject to prior liens on all the other property of the company, which does the public utility business of Davenport and vicinity. Franchises are strong, and the margin of safety is steadily growing. At 95 the yield is about 5.45 per cent.

Trumbull Public Service Corp. first sinking fund 6s, due June 1, 1920. Interest June and December in New York and Cleveland. Callable at 105 prior to June 1, 1915, and at 102 thereafter. Sinking fund retires 2 per cent. of bonds annually after June 1, 1915. Company operates the gas, electric light and water utilities of the cities of Warren, Niles, Newton Falls and Leavittsburg, Ohio, and is under the management of the Doherty Operating Co. Franchises extend beyond life of bonds and the margin of safety is a growing one. At 98 the yield is about 6.15 per cent.

Twin States Gas & Electric Co. first and refunding 4½s, due October 1, 1926. Interest April and October

1 at Knickerbocker Trust Co., New York. Company operates public utilities in Dover, N. H., and Brattleboro, Vt., and also electric light and power in various other towns in this vicinity. Is controlled by National Light, Heat & Power Co., which guarantees the bonds. A good margin of safety is shown, and at 92 the bonds yield about 5.30 per cent.

Union Electric Light & Power Co. refunding and extension 5s, due May 1, 1933. Interest May and November 1 at Bankers Trust Co., New York. Callable at 110 on and after May 1, 1918. Company does a large electric light and power business in the city of St. Louis under strong franchises, and is controlled by the North American Co. The bonds enjoy a wide equity and a good investment rating is justified. At 97 the yield is about 5.25 per cent.

United Electric Light & Power Co. first consolidated 4½s, due May 1, 1929. Interest May and November at Maryland Trust Co., Baltimore. This is one of the liens of the Consolidated Gas, Electric Light & Power Co. of Baltimore, and these bonds are in a strong investment position. At the price of 94 the yield is about 5 per cent.

Utah Light & Power Co. consolidated 4s, due January 1, 1930, interest January and July at Empire Trust Co., New York. Callable at 100 on any interest date. Company controls public utilities in the cities of Salt Lake and Ogden, Utah, and is controlled by the Union Pacific Railroad Co. Franchise extends to 1955 and bonds are

well protected, although not a first mortgage on all the property. At 80 the yield is about 5.80 per cent.

Virginia Railway & Power Co. first and refunding 5s, due July 1, 1934. Interest January and July 1 at Equitable Trust Co., New York. Callable at 105 at any interest date. Bonds are a first lien on practically all the property of the company, which operates the electric utilities in Richmond and Petersburg, Va., and also controls various other companies, including the street railway of Norfolk and Portsmouth, Va. There is a good margin of safety in earnings, and at 96 the bonds yield about 5.30 per cent.

Western Ohio Railway Co. first 5s, due November 1, 1921. Interest May and November 1 in New York. Company is controlled by the Western Ohio Railroad Co., which guarantees the bonds. On a part, the issue is subject to a small first mortgage, but is well protected by a good margin of safety. At 93 the yield is about 6.00 per cent.

York Railways first 5s, due December 1, 1937. Interest June and December 1 at Philadelphia. Callable at 110 on any interest date. Bonds are a first lien on all the property of the company, consisting of over 82 miles of street railway, with perpetual franchises. Issue enjoys a good margin of safety. At 97 the yield is about 5.20 per cent.

This completes the list of fifty selected public utility bonds. Not all of these issues are of equal strength,

but all pass good investment tests, and from the list many selections can be made for individual investment or for general investment distribution.

Recapitulation: For an investor who wishes to distribute a portion of his capital very broadly among public utility issues, probably no better list could be selected. It will be noted that no two of these issues are tied to one string; all are spread broadly over the entire country; there is diversity of type, diversity of lien, diversity of management, etc. Of course, no investor should put his entire capital into one line like public utility bonds, but for one who has a substantial investment fund, about 25 per cent. invested in this list, in equal amounts of each issue, would be investment intelligence of a high order. For such an investor, the scheme would work out as shown on page 127.

In this list there are 250 bonds, 5 of each issue. The total cost of 250 bonds at the prices shown would be \$231,237.50, and the average yield on the money, assuming that the bonds would be held until maturity, would be over 5½ per cent. The total income per annum on the investment would be \$12,175, so that, disregarding the appreciation to par during the life of the bonds, the holder would have a straight yield of over 5¼ per cent. on his investment.

Of course, a smaller investor could either eliminate some of the issues or else buy only one or two of each. And even a very large investor, if he wished to concentrate his holding more, could select a portion of the issues

Selected Public Utility Bonds

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Amount	Title	Maturity	Price	Net Cost	Yield
\$5,000	Am. Tel. & Teleg. col. 4s...	1929	90½	\$4,512.50	4.85%
5,000	Atchison Ry. L. & P. 5s....	1935	95	4,750.00	5.40
5,000	Atlantic City El. 5s.....	1938	93	4,150.00	5.50
5,000	Burlington Ry. & Lgt. 5s..	1932	95	4,250.00	5.40
5,000	Carol. Pr. & Lgt. 5s.....	1938	92	4,100.00	5.65
5,000	Cin. Gas Trans. 5s.....	1933	89	4,450.00	5.90
5,000	Colum. Ry. G. & E. 5s....	1936	94	4,700.00	5.45
5,000	Consumers Pr. 5s.....	1936	96	4,800.00	5.30
5,000	Danv. Ur. & Champ. 5s....	1923	96	4,800.00	5.50
5,000	E. St. Louis & Sub. 5s....	1932	96	4,800.00	5.35
5,000	East Orego. L. & P. 5s....	1929	97	4,850.00	5.28
5,000	Ft. Smith L. & Tr. 5s.....	1936	91	4,550.00	5.70
5,000	Ft. Worth P. & L. 5s.....	1931	96	4,800.00	5.35
5,000	Helena Lt. & Ry. 5s.....	1925	90	4,500.00	6.00
5,000	Ind. Col. & East. Tr. 5s....	1926	92	4,600.00	6.00
5,000	Ironwood & Bess. R. & L. 5s	1936	92	4,600.00	5.65
5,000	Jackson L. & T. 5s.....	1922	96	4,800.00	5.55
5,000	Jacksonv. Tr. (Fla.) 5s....	1931	95	4,750.00	5.40
5,000	Johnstown Pass. Ry. 4s....	1931	89	4,450.00	5.00
5,000	Kansas C. (Mo.) Gas 5s....	1922	98	4,900.00	5.25
5,000	Madison Riv. Pr. 5s.....	1935	94½	4,725.00	5.45
5,000	Mich. United Rys. 5s.....	1936	94	4,700.00	5.45
5,000	Milw. Gas Lt. 4s.....	1927	91	4,550.00	4.85
5,000	New Orleans Ry. & L. 4½s..	1935	87	4,350.00	5.50
5,000	N. Y. & Richmond Gas 5s..	1921	96	4,800.00	5.60
5,000	Norf. & Ports. Tr. 5s.....	1936	88	4,400.00	5.90
5,000	North Ind. Gas & El. 5s....	1929	90	4,500.00	5.90
5,000	Northern Texas Tr. 5s....	1933	101	5,050.00	5.00
5,000	N. Car. Pub. Ser. 5s.....	1934	90	4,500.00	5.80
5,000	Nor. Ill. L. & Tr. 5s.....	1923	95	4,750.00	5.65
5,000	Nor. Ohio Tr. & Lt. 4s..	1933	74	3,700.00	6.80
5,000	Okla. Gas & El. 5s.....	1929	97	4,850.00	5.25
5,000	Ottumwa Ry. & Lt. 5s.....	1924	90	4,500.00	6.20
5,000	Pac. Pwr. & Lt. 5s.....	1930	93½	4,675.00	5.55
5,000	Pensacola El. 5s.....	1931	90	4,500.00	5.88
5,000	Peoria Gas & El. 5s.....	1923	100	5,000.00	5.00
5,000	Portland (Me.) El. 5s.....	1926	98½	4,925.00	5.15
5,000	Puget Sound Pr. 5s.....	1933	99	4,950.00	5.08
5,000	Southern Pr. 5s.....	1930	99	4,950.00	5.08
5,000	Springfield (Mo.) Ry. & El. 5s	1926	94	4,700.00	5.65
5,000	Superior Wat. L. & P. 4s...	1931	82	4,100.00	5.55
5,000	Tri-City Ry. & L. 5s.....	1930	90	4,500.00	5.45
5,000	Trumbull Pub. Ser. 6s.....	1920	98	4,900.00	6.15
5,000	Twin States Gas & El. 4½s...	1926	92	4,600.00	5.30
5,000	Union El. Lgt. & Pr. 5s....	1933	97	4,850.00	5.25
5,000	United El. Lgt. & Pr. 4½s..	1929	94	4,700.00	5.00
5,000	Utah Lt. & Pr. 4s.....	1930	80	4,000.00	5.80
5,000	Virg. Ry. & Pr. 5s.....	1934	96	4,800.00	5.30
5,000	Western Ohio Ry. 5s.....	1921	93	4,650.00	6.00
5,000	York Railways 5s	1937	97	4,850.00	5.20
\$250,000				\$231,237.50	

in \$10,000 lots or even larger amounts. In any event, it would be found that within this list there is room for a wide range of diversification.

Most of these issues have fairly good markets, but of course the purpose in buying bonds of this character should be permanent investment, and not for purposes of appreciation. It will be noted that due regard is given to the length of life of each bond, and no bond here suggested runs beyond 1938, while the average life of the list is less than 20 years.

XV

Railroad Preferred Stocks as Investments

HERETOFORE we have confined our descriptions chiefly to bond issues. Bonds are, primarily, to be regarded as more exclusively in the class of sound investments than stocks, although this of course does not hold true in many individual instances. The bondholder, however, is always technically the "investor," or loaner of funds, while the stockholder is the partner. For, if one puts \$1,000 into the stock of a railroad, such as the Atchison, Topeka & Santa Fe, he is, legally, going into partnership with the other owners of this road's capital stock, while, if he puts \$1,000 into a bond of the same railroad, he is simply a creditor of the company, and is loaning the concern, under certain agreed conditions, this amount of money.

But, as in the case of bond issues, there are various kinds of stocks, the different provisions of which have the result of giving the owner more or less of a prior claim as against certain other stockholders. Thus we find that many stock issues are "preferred" as to position or interest in the enterprise. This preference is sometimes limited to a prior claim on the income or profits; in other instances it covers also the tangible as-

sets of the corporation in the event of liquidation; and in still other cases it embraces also the voting power, preferred stockholders sometimes having a voting privilege to the exclusion of the other stockholders. There are other instances where the voting privilege is withheld from preferred shareholders in consideration of the preference granted for a prior division of or claim on income; and ordinarily they also forego a further claim on profits beyond the fixed amount for which they have preference before any dividends are paid on any other classes of stock. In this limitation of income the preferred stock partakes of one of the characteristics of the ordinary bond.

In fact, the varying terms in preferred stock issues of railroads and other corporations have a tendency to qualify the shareholder's position as a plain business partner. The preferred shareholder, while still being bound up as one of the owners of the enterprise, is accorded a prior claim on income or on assets, in consideration of agreeing to be content with only a fixed amount of the profits per year, and allowing the other partners to divide up the balance. He therefore holds a dual position, and while one of the owners of the property, as every shareholder is an owner, he at the same time holds a prior claim on the income as the loaner or bondholder does.

Of course there are all kinds of preferred stocks, good, bad and indifferent. Some are highly speculative, just as many common stocks are, and some are very "high grade" and secure, as in the cases of many bonds.

For the genuine investor, who has no idea of speculating on the future, and who is in search of stability of both income and principal, the average preferred stock is of course to be selected rather than the common stock, even when all other things are equal. For example, it would take very little demonstration to show that Atchison preferred, a 5 per cent stock, is more desirable for permanent investment than New York Central, which is also a 5 per cent stock. If one wished to speculate, then New York Central might be the better in the long run, but not otherwise.

In order to show the varying characteristics of the leading preferred stocks of steam railroads, I append below brief descriptions of some of the important issues, most of which have for many years stood on a sound plane as permanent investments.

Atchison, Topeka & Santa Fe Railway 5 per cent non-cumulative preferred.

This issue has preference over the common stock as to assets, up to its par value, and also as to non-cumulative dividends not exceeding 5% per annum. No new mortgage or other bond or stock obligation can be created without the consent of "a majority of all the preferred stock and all the common stock represented at a meeting" called to vote on such a proposition. Both preferred and common stock have equal voting power.

It will be noted that in this case, the preferred stockholders have but slight protection as against the wishes

of the common stockholders in the event of questions like the above arising. The common stock has been many times increased in recent years, and is today in excess of \$170,000,000, so that the solid vote of all the preferred holders against a proposition to create further mortgage indebtedness, would not prevent such indebtedness from being created. The limit of the preferred stock is \$131,486,000, and at the time of organization the common stock outstanding amounted to less than \$103,000,000, or under 50% of the whole. But today, the common stockholders control the policy of the company. The preferred stock has paid dividends regularly since 1900. The highest this stock has sold within the past decade has been 106¾ in 1909; the lowest, 78 in 1907.

Baltimore & Ohio Railroad 4 per cent non-cumulative preferred.

This stock has preference as to assets up to its par value, and to 4% non-cumulative dividends. New mortgages may be created by majority vote of both classes of stock, each issue having equal voting power. As the common stock is in a large majority, it will be seen that the preferred issue does not control the financial policy of the company. Dividends at the full rate have been paid since 1900. During the past ten years the stock has sold as high as 100 in 1905, and as low as 75 in 1907.

Chicago & North Western Railway non-cumulative preferred.

The preferred issue has preference to dividends up to 7% per annum, after which the common stock is entitled to 7%; when the common has received 7%, then the preferred has preference to 3% more; and after each class of stock has in any one year received 10% dividends, then if there are any further earnings available for dividends, each class of stock is to share alike in any further distribution. As the authorized amount of preferred is only \$22,298,955, and the common much heavier, the financial policy of the company is in the hands of the latter. The preferred stock has received 8% per annum since 1902, but the common has never received more than 7%. Since 1901 the preferred has sold as high as 270 in 1906, and as low as 185 in 1907.

Chicago, St. Paul, Minneapolis & Omaha 7 per cent non-cumulative preferred.

This stock has preference to 7% non-cumulative dividends, after which the common is entitled to 7%; when both issues have received 7%, both stocks share alike in any further division of earnings. Both issues have equal voting power and the common stock controls. The full 7% dividend has been paid for many years. The highest price within the past ten years was 210 in 1902, and the lowest, 137½ in 1907.

*Chicago, Milwaukee & St. Paul Railway 7 per cent
non-cumulative preferred.*

The stock has preference to 7% non-cumulative dividends, after which the common is to receive 7%, all further dividend disbursements to be divided equally between the two classes. Both stocks have equal voting power and the amount outstanding is the same. The stock reached the highest price of the decade in 1906 when it sold at 218, and the lowest, 130 in 1907.

Erie Railroad first and second preferred.

The first preferred has first preference as to assets and to 4% non-cumulative dividends; the second preferred following, with all additional earnings going to the common stock. All stocks have equal voting power, but it is provided that no additional mortgage can be placed on the property, nor the amounts of preferred stock increased, without the vote of at least one-half of the two preferred stocks, and one-half of such of the common stock as may be represented at a meeting. Furthermore, the general voting rights are shared with the bondholders of the prior lien and general lien bonds; each bond of a par value of \$1,000 having ten votes. As these two bond issues aggregate over \$70,000,000, and will ultimately aggregate much more, they practically control the financial policy of the company jointly with the first preferred stock. (The Erie preferred stocks are in no sense "investments" at the present time,

but they are included in this list to show their peculiar position in relation to other securities on the system.)

Pittsburgh, Cincinnati, Chicago & St. Louis Railway preferred.

The stock is non-cumulative and entitled to 4% per annum out of earnings as declared by the board, with the right, after 3% has been paid on the common, to pay 1% additional, making 5% in all. After 5% has been paid on both classes, then they share pro rata in any further distribution. Both classes have equal voting power, and the common, which is in the majority, controls the policy of the company. From 1902 to 1906, 4% was paid on the preferred; since which year the rate has been 5%. The highest quotation since 1905 was 116¼ in 1909; the lowest, 69½ in 1907.

Reading Company preferred stocks.

First preferred has first preference as to 4% non-cumulative dividends; second preferred follows, and common receives all further divisible earnings. All classes of stock have equal voting power, but no additional mortgage can be placed on the property, nor can the first preferred stock be increased without the consent of a majority of all three classes. The company also has the right, at its discretion, to convert the second preferred, one-half into first preferred and one-half into common, or may retire either or both classes of pre-

ferred at par at any time. Full dividends have been paid on the first preferred since 1900 and on the second preferred since 1903. The first preferred sold up to 106 in 1909 and down to 73 in 1907. The second preferred to 117½ in 1909, and 67 in 1907.

Rock Island Company preferred.

This stock has preference as to assets up to its par value and also to non-cumulative dividends of 4% per annum yearly until and including 1909; 5% yearly from 1910 to 1916; 6% yearly thereafter. The preferred stock can only be increased with the consent of two-thirds of the outstanding issues of both classes of stock, but as the common stock is much the larger issue, the preferred could be increased by full vote of the common combined with a majority of the preferred. In voting power, however, the preferred stockholders have the advantage, as they are entitled to elect a majority of the board of directors of the company. (Rock Island preferred is not, of course, to be classed as an "investment" at the present time. No dividends have been paid since 1905.)

Seaboard Air Line Railway preferred

Has preference as to 4% non-cumulative dividends; then the common is to receive 4%; then the preferred is to receive 2% additional, after which common is entitled to all further dividends. Both classes have equal voting

power. No dividends have yet been paid on the preferred, and it is not in the investment class.

The above is of course a very limited list of preferred railroad stocks, but these selections have been made to show the distinct characteristics of different issues. Many people purchase preferred stocks without really knowing to what degree they are "preferred" and assume that no qualifying factors can enter in. But as the above descriptions indicate, it might almost be said that no two preferred issues are exactly alike, and that where one issue is definitely entitled to a certain preference as to dividends or other advantage, another's preference is qualified to a more or less degree, or may really be stronger than appears on the surface. Thus a stock like St. Paul preferred, while having first preference to 7%, is entitled to share in additional dividends after the common has received 7%. This gives St. Paul preferred a direct potential interest in the future growth of the property and of course is a factor in keeping the price of the stock relatively high.

XVI

Guaranteed Railroad Stocks as Investments

A TYPE of investment issue which generally stands upon a high plane, but regarding which very little reference is made in ordinary financial literature, are stocks whose dividends are permanently guaranteed by some railroad or other corporation. A guaranteed stock may be either common or preferred. In nearly all cases a stock carrying the guaranty of some other company has been originally issued without such guaranty, the latter characteristic coming about as the result of a merger, acquisition of control, or other arrangement based on the lease of the property. Many companies are of course leased in other ways, some being guaranteed a fixed rental, which may or may not be sufficient to equal a stock dividend, and may cover only interest on bonds; others are leased on a basis of a percentage of gross or net receipts, and still others on a basis which involves a definite guaranty of a fixed dividend.

Below I furnish facts regarding several of the best guaranteed railroad stocks, which are regularly quoted in the financial markets at the present time.

Albany & Susquehanna R.R. Guaranteed Stock.

Capital stock, \$3,500,000; par, \$100. Leased to Del. & Hud. Co. from February 24, 1870, in perpetuity, rental being interest on bonds, and dividends on stock at rate of 7% per annum until July, 1902, and 9% per annum thereafter, but courts have held that stock is entitled to benefit of refunding of bonds in 1906, and 3.45% extra is paid each year, making 12.45% in all.

Atlanta & Charlotte Air Line Ry. Guaranteed Stock.

Capital stock, \$1,700,000; par, \$100. Operated by Southern Ry. Co. under 99-year contract, dated April 1, 1881, which calls for payment of interest on bonds, organization expenses and minimum of 5% on stock; dividends to be increased to 6% should earnings exceed \$1,500,000, and to 7% should they exceed \$2,500,000 in any one year. Dividends have been paid as follows: 1881 to 1889, inclusive, 5% per annum; 1890, 5½%; 1891 to March, 1901, inclusive, 6% per annum; 7% per annum since.

Beech Creek R.R. 4% Guaranteed Stock.

Capital stock, \$6,000,000; par, \$50. Leased to N. Y. C. & Hudson R.R. for 999 years, from October 1, 1890, at rental of interest on bonds and 4% on stock. Dividends quarterly, January 1, at Grand Central Station, New York.

Cleveland & Pittsburg R.R. Guaranteed Stocks.

Capital stock, \$11,247,593 7% guaranteed stock and \$9,853,050 4% guaranteed special betterment stock; par, \$50. The special betterment stock is issuable for improvements and is subordinate to the original stock as to dividends only. Leased for 999 years, from December 1, 1871, to Penna. R.R.; lease transferred to Penna. Co., April 14, 1873; rental 7% on stock, interest on bonds, sinking fund, and \$10,000 for organization expenses.

Concord & Montreal R.R. 7% Guaranteed Stock.

Capital stock, \$7,857,600; par, \$100; divided into four classes as follows: \$800,000 class 1; \$540,400 class 2; \$459,600 class 3; \$6,057,600 class 4. Leased together with its proprietary, controlled, and leased lines to Boston & Maine R.R. for 91 years, from April 1, 1895; lease to go to Boston & Lowell R.R. in case same terminates before 91 years have elapsed. Lessee assumed all the liabilities, and by agreement pays 7% on stocks as rental.

Connecticut River R.R. 10% Guaranteed Stock.

Capital stock authorized, \$3,670,300; outstanding, \$3,113,000; par, \$100. Leased to Boston & Maine R.R. for 99 years, from January 1, 1893, at rental of 10% per annum on stock, interest on bonds and \$2,000 for organization expenses.

Erie & Pittsburg R.R. 7% Guaranteed Stocks.

Capital stock outstanding, \$2,000,000 original 7% guaranteed stock, and \$1,469,450 (auth. \$2,500,000) special 7% guaranteed betterment stock; par, \$50. Leased for 999 years, from March 1, 1870, to Penna. R.R., and lease subsequently assigned to Penna. Co. Rental, interest on bonds, 7% per annum on capital stock, and \$2,500 for organization purposes. An allowance, amounting to about 51 cents per share, for Penna. State tax, must be made in the net returns.

Georgia R.R. & Banking Co. 11% Guaranteed Stock.

Capital stock, \$4,200,000; par, \$100. The railroad was leased May 7, 1881, for 99 years, to W. M. Wadley, at a rental of \$600,000 per annum, but in April, 1899, the Louisville acquired all rights under the lease and in July, 1899, the Atlantic Coast Line acquired a half interest. As security for the performance of the terms of the lease this company holds \$500,000 5% bonds of the So. & No. Ala. R.R. and a like amount of first 4s of the Atlantic Coast Line R.R. of S. C. Dividends, 11% per annum, quarterly, January 15, at Georgia Railroad Bank, Augusta, Ga. This rate has been paid since 1889; prior to that date, rate ranged from 9% to 10¾%.

Little Miami R.R. 8% Guaranteed Stock.

Capital stock, \$4,943,100 common and \$3,700,500 special betterment stock; par, \$50. Leased for 99 years,

from December 1, 1869, to Pitts., Cin. & St. L. Ry. (now P., C., C. & St. L. Ry.), with permanent renewal, at rental of interest on bonds, rentals of leased lines, 8% per annum on stock, and \$5,000 for maintenance of organization. The Penna. R.R. is a party to the lease, and guarantees its faithful execution. Dividends quarterly, March 10, at 41 East 4th St., Cincinnati. From December, 1899, $\frac{1}{5}\%$ extra has been paid semi-annually (July and December) from invested surplus fund, making $8\frac{3}{5}\%$ per annum. Dividends of 4% per annum are paid on the special betterment stock.

Morris & Essex R.R. 7% Guaranteed Stock.

Capital stock, \$15,000,000; par, \$50. Leased in 1868 to Del., Lack. & West. R.R., in perpetuity, the lessee assuming all liabilities and agreeing to pay interest on bonds and 7% on stock. The valuable terminal facilities in N. Y. Harbor of the D., L. & W. system are owned by this company. Dividends January and July, at 26 Exchange Place, New York.

Old Colony R.R. 7% Guaranteed Stock.

Capital stock, authorized and outstanding, \$21,165,125; par, \$100. Leased to N. Y., N. Haven & Hartford R.R. for 99 years, from March 1, 1893, at rental of 7% per annum on stock, lessee assuming all liabilities. Dividends quarterly, January, at company's office, South Term. Station, Boston.

Pittsburg, Fort Wayne & Chicago Ry. 7% Guaranteed Stock.

Capital stock, \$44,694,600 special improvement and \$19,714,286 general stock; par, \$100. The former is subject to the general stock, and is issued to the Penna. R.R. for improvements. Leased, in perpetuity, from July 1, 1869, to the Penna. R.R. at rental of interest and sinking fund of debt, and 7% per annum on both classes of stock. Lease assigned to Penna. Co., lessee assuming all obligations of the lessor.

Pittsburg, McKeesport & Youghiogheny R.R. 6% Guaranteed Stock.

Capital stock authorized, \$4,000,000; outstanding, \$3,959,650; par, \$50. Leased for 999 years to Pittsburg & Lake Erie R.R. from August 3, 1881, at rental of 6% per annum on stock, and guaranty of principal and interest on bonds, jointly by Pittsburg & Lake Erie and Lake Shore & Michigan Southern Cos., the guaranty being endorsed on both bonds and stock certificates. The stock guaranty contains the proviso that the holder shall accept par for stock on July 1, 1934.

XVII

Industrial Preferred Stocks as Investments

IN an earlier chapter I made some extended reference to preferred stocks of railroads as investments, and in some detail described the varying terms of different issues. I will now go into the subject of industrial preferred issues, which, while in many cases fully as secure as seasoned preferred stocks of railroads, have characteristics of their own.

Speaking broadly, industrial preferred stocks are a purely modern product. Prior to 1899 there were but few large industrial corporations or "trusts" in existence, and while a number of large concerns, such as the American Sugar Refining Company and the old American Tobacco Company had been notably successful in showing large profits for from five to ten years, yet even the best protected issues in the "industrial" field were avoided by careful investors, and many speculative common stocks of railroads were given preference over them. Even after the consolidation period of 1898 to 1902 had passed, and there were dozens of industrial stocks paying large dividends and earning these dividends two or three times over, very few were recommended in any

sense as investments, although they were actively traded in in the speculative stock market.

There were good reasons for this apparent tardiness in recognizing investment values in industrial preferred stocks ten or twelve years ago. In the first place, nearly all the industrial trusts were capitalized on heavily inflated bases; the preferred stocks usually representing simply the appraised values of the plants absorbed, and the common stocks representing merely voting power, "good will" and "water." And no doubt in many cases these appraised valuations were very high, and the real intrinsic worth of the properties at the start was in many cases less than 75 per cent of the amount of preferred stock outstanding. And further than this, all of these combinations at the start were in a purely experimental stage. While the promoters, in putting through the combinations, usually furnished estimates to show that the net profits would be enormously increased because of the consolidation, yet this fact had to be demonstrated before the security of the issues could be granted. A few years' experience showed very clearly that the estimates of the promoters were in most cases wide of the mark, and that not only was it impossible to increase earnings in anything like the ratios promised, but the great majority of "trusts" were obliged to promptly secure increased working capital through the issue of bonds or more stock. Like the railroads in the '70s and '80s, nearly all corporations of this type were on "probation," and their securities had in no sense become "seasoned."

But since that day more than a decade has gone by. In this stretch of time we have had a period of pronounced prosperity and one of extreme trade reaction and depression. These companies have, in many instances, gone through a panic successfully, and have records back of them in earning power, management and general growth which has had the result of placing many issues in the class of "seasoned stock investments."

On the following pages I list and describe some of the leading listed preferred issues in the industrial field, which, it seems to me, have well stood the test of time, and demonstrated their investment worth. Of course, their period of probation has not been as long as that of the railroads, and the best industrial is not to be regarded as on as high an investment plane as the best railroad. But this difference is well reflected in the different market prices of the two classes of stock.

I have not included all good preferred issues, but only the leading active ones which are listed on the New York Stock Exchange. I have also, for the most part, confined the list to those which have been in existence a decade or more, and which have paid their preferred dividends uninterruptedly, at the full rate, during the entire period.

*American Smelting & Refining 7% cumulative
preferred.*

Outstanding issue, \$50,000,000; par \$100. Has preference as to assets and 7% cumulative dividends, all

remaining earnings going to the common. Also has full voting power. Full dividends have been paid in every year since the organization of the company in April, 1899. Earnings for year to April 30, 1911, equaled 13.33% on this stock, as compared with 14.09% the previous year. Since 1906 the stock has sold as high as 117 $\frac{3}{8}$ and as low as 81 $\frac{3}{4}$. There seems no reason, in view of the demonstrated permanent earning power, why the full dividends should not continue for many years to come.

American Agricultural Chemical 6% cumulative preferred.

Outstanding, \$19,288,000; par \$100. Has preference as to assets and 6% cumulative dividends, and also has full voting power. Full rate of 6% has been paid on preferred since 1899. Earnings applicable to preferred stock in recent years have been as follows: 1905, 9.3%; 1906, 10.1%; 1907, 12%; 1908, 11.2%; 1909, 12.1%; 1910, 13.9%. Since 1905 the stock has sold as high as 103 and as low as 75 (in 1907).

The equity back of this issue is very heavy, and the stock looks very attractive around its par value as a permanent investment.

American Beet Sugar 6% non-cumulative preferred.

Outstanding, \$5,000,000; par \$100. Has preference as to assets and 6% non-cumulative dividends; also has full voting power. Full dividends have been

paid since the organization of the company in March, 1899. Earnings in recent years, applicable to preferred dividends have been as follows: Year ended March 31, 1907-8, 17.64%; 1908-9, 25.86%; 1909-10, 25.86%; 1910-11, 38.75%. While this stock is non-cumulative, yet it seems fully worth its face value, in view of the smallness of the issue, and of the excellent average showing made by the company during the decade.

American Car & Foundry 7% non-cumulative preferred.

Outstanding, \$30,000,000; par \$100. Has preference as to assets and 7% non-cumulative dividends; also has full voting power. Full dividends have been paid since the organization of the company in 1899. Earnings on this issue during recent years have been as follows: 1907-8, 29.87%; 1908-9, 9.65%; 1909-10, 13.63%; 1910-11, 14.11%. While the earnings in this type of business tend to wider fluctuations than in some other lines, yet the preferred stock is clearly well protected.

American Sugar Refining 7% cumulative preferred.

Outstanding, \$45,000,000; par \$100. Has preference as to 7% cumulative dividends; but is not preferred as to assets. Dividends at the full rate have been paid on this issue since the organization of the company 21 years ago. While there is no preference as to assets, yet the

earning power of this concern, through good times and bad, is so heavy that the preferred issue should be regarded as a permanent dividend payer. Even the abolition of the tariff, while it would injure the position of the common stock, would not reduce earnings sufficiently to affect the preferred. In recent years, the percentages earned on the preferred have been as follows: 1907, 19.44%; 1908, 14.45%; 1909, 24.05%; 1910, 14.18%; 1911, 31.29%.

E. I. du Pont de Nemours Powder Co. 5% cumulative preferred.

Outstanding, \$16,068,801; par \$100. Has preference as to assets and 5% cumulative dividends. The full rate of 5% has been paid on the issue since it was created in 1903. In recent years the net earnings applicable to this dividend have been as follows: 1908, 26.11%; 1909, 36.14%; 1910, 34.42%; 1911, 36.75%. The remarkable earning power of this company makes this stock most attractive as an investment.

General Chemical Co. 6% cumulative preferred.

Outstanding, \$12,500,000; par \$100. Has preference as to assets and to 6% cumulative dividends. The full dividend has been paid in every year during the past decade. Earnings on the issue since 1907 have been as follows: 1908, 11.16%; 1909, 17.12%; 1910, 18.73%; 1911, 18.88%. Since 1906 the stock has sold as high as

108 and as low as 85. In view of the stability shown by this concern for many years, the preferred stock should be regarded as a most desirable investment.

International Harvester 7% cumulative preferred.

Outstanding, \$60,000,000; par \$100. Has preference as to assets and 7% cumulative dividends. The full dividend has been regularly paid ever since the creation of the preferred issue in 1907. Prior to that date, the entire stock was one class, on which 3% was paid in 1903 and 4% from 1904 to 1906. Earnings on this preferred issue since 1906 have been as follows: 1907, 13.47%; 1908, 14.81%; 1909, 24.82%; 1910, 26.81%; 1911, 25.87%.

National Biscuit 7% cumulative preferred.

Outstanding, \$24,804,500; par \$100. Has preference as to assets and 7% cumulative dividends. This company was formed in 1898, and the full rate has been paid on the preferred stock in every year since that date. Earnings on this stock in recent years have been as follows: Year ended Jan. 1, 1908, 16.53%; 1909, 15.71%; 1910, 16.04%; 1911, 18.62%; 1912, 18.84%.

Pressed Steel Car 7% non-cumulative preferred.

Outstanding, \$12,500,000; par \$100. Has preference as to assets and to 7% non-cumulative dividends. The full rate of 7% has been paid on this issue since the organization of the company in 1899. Earnings on the

stock during recent years have been as follows: 1908, 1.24%; 1909, 14.68%; 1910, 12.55%; 1911, 7.14%.

Railway Steel Spring 7% cumulative preferred.

Outstanding, \$13,500,000; par \$100. Has preference as to assets and 7% cumulative dividends. The full rate has been paid on the issue since the organization of the company in 1902. In recent years, earnings on this stock have been as follows: 1908, 5.67%; 1909, 12.32%; 1910, 13.00%; 1911, 7.22%. Since 1907 the stock has sold as high as 109 and as low as 72.

United States Steel Corporation 7% cumulative preferred.

Outstanding, \$360,281,100; par \$100. Has preference as to assets and 7% cumulative dividends. The full rate has been paid in every year since the organization of the company in 1901. Earnings on this stock in recent years have been as follows: 1907, 20.02%; 1908, 12.69%; 1909, 21.91%; 1910, 24.26%; 1911, 14.78%. Since 1906 the issue has sold as high as 131, and as low as 79¼.

Virginia Carolina Chemical 8% cumulative preferred.

Outstanding, \$20,000,000; par \$100. Has preference as to assets and 8% cumulative dividends. The full rate of 8% per annum has been paid on this stock ever since the formation of the company over sixteen years ago. Earnings on the issue in recent years have been as follows: Year ended May 31, 1908, 14.35%; 1909, 19.06%;

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1910, 24.20% ; 1911, 12.83%. In price, the stock has sold, since 1906, as high as 129¼ and as low as 75.

While none of these stocks are today selling near their low figures of 1907, yet practically all are far below the highest figures which they have reached within the past five years. It may not be the best time for making investments in stocks of this general character, but it is certainly not the poorest time. For a man who wished to distribute a given sum among industrial preferred stocks, however, the above list would be about as good as could be selected, taking into consideration past record, demonstrated earning power, marketability, etc. Such an investment, distributed within the limits of this list, would, at recent market prices, yield the following net result :

American Smelting and Ref. 7% preferred...at 108,	yields 6.48%
Amer. Agri. Chemical 6% preferred.....at 102½,	" 5.85%
American Beet Sugar 6% preferred.....at 98¾,	" 6.10%
Amer. Car & Foundry 7% preferred.....at 115,	" 6.10%
Amer. Sugar Refining 7% preferred.....at 120,	" 5.80%
E. I. du Pont De Nemours 5% preferred....at 98,	" 5.13%
General Chemical Co. 6% preferred.....at 108,	" 5.55%
International Harvester Co. 7% preferred...at 120,	" 5.80%
National Biscuit Co. 7% preferred.....at 128,	" 5.47%
Pressed Steel Car 7% preferred.....at 103,	" 6.80%
Railway Steel Spring 7% preferred.....at 104,	" 6.73%
United States Steel 7% preferred.....at 112,	" 6.25%
Virginia Car. Chem. 8% preferred.....at 116,	" 6.90%

If a sum were invested in the above stocks in equal amounts, the net yield on the total would be about 6.10%.

XVIII

Unlisted Industrial Preferred Stocks as Investments

WITH the demand which has come in within the past few years for a larger net return on the investor's money, the popularity of industrial preferred stocks, paying from 6 per cent to 8 per cent, has rapidly increased. Indeed, the demand for investment issues of this type has been sufficient to absorb an ever-increasing number of such issues, and within the past two or three years we have witnessed the formation of many corporations of large capital whose preferred stocks have come upon the market. As a general thing, issues of this type are dealt in in the "outside" or curb market, or else are sold only by private sale, "over the counter."

In this new investment field, there are many attractive opportunities, but at the same time the pitfalls are many, and it is usually an extremely dangerous thing for the average investor to put much money into a preferred industrial unless he is intelligently advised. As in the case of other investment fields, securities of this type should undergo the various tests of stability, earning

power, financial soundness, character of management, character of business done, etc.

Among the issues, which, in my opinion, pass the best investment tests, and look attractive as permanent investments, are the following:

	Selling around
American Bank Note 6% preferred (par \$50).....	52
American Chiclé Co. 6% preferred (par \$100).....	106
American Radiator Co. 7% preferred (par \$100).....	130
American Type Founders Co. 7% preferred.....	100
Borden's Condensed Milk 6% preferred.....	110
H. B. Claflin Co. first preferred, 5%.....	90
Childs (Restaurant) Co. preferred, 7%.....	110
du Pont Powder Co. 5% preferred.....	93
Eastman Kodak Co. 6% preferred.....	128
May Department Stores, preferred, 7%.....	110
National Candy Co. first preferred, 7%.....	109
National Carbon preferred, 7%.....	118
Niles, Bement, Pond Co. 6% preferred.....	98
Otis Elevator Co. preferred, 6%.....	101
Pierce, Butler & Pierce Mfg. Co. preferred, 7%.....	103
Pratt & Whitney preferred, 6%.....	100
Royal Baking Powder preferred, 6%.....	110
Sears, Roebuck Co. preferred, 7%.....	123
Underwood Typewriter preferred, 7%.....	110
Waltham Watch preferred, 6%.....	110
H. R. Worthington Co. preferred, 7%.....	107

Of course all the above issues have not equal standing, and probably some are selling a little too high in view of the return on the money. But they are all backed by very heavy equities, and while the common stocks of many of these same companies have large elements of speculation back of them, these preferred issues all stand on sound bases. While not in the class of issues yielding but $4\frac{1}{2}$ to 5 per cent, they appear attractive as investments of this particular type.

XIX

Public Utility Preferred Stocks as Investments

AMONG the types of investment stocks which yield something more than the average return, and in many cases have in addition, considerable potential value, the public utility holding company preferred issue takes a prominent place. Like the industrial preferred stock, this is entirely a modern product in the investment field, and only a limited number of issues have as yet become so far "seasoned" as to be classed with higher grade investments.

Nevertheless, in these days, when it is so necessary for the average investor to get, on a part of his principal at least, a little better return than the high grade railroad stocks and bonds accord, it is certainly worth while to give careful study to this public utility field. Therefore I have selected a number of the stocks in this class which seem to me to measure up to good investment tests, and I list these issues below.

American Cities Co. 6% cumulative preferred.

Outstanding, \$20,513,700; par \$100. Callable at 110 and interest. The company is a holding corporation,

owning the stocks of a number of operating companies located in Southern cities, such as New Orleans, Birmingham, Little Rock, Memphis, etc.; and succeeded the American Cities Railway & Light Co. in 1911. The dividend is being earned with a good margin over.

American Gas & Electric Co. 6% cumulative preferred.

Outstanding, \$3,500,000; par \$50. Controls about twenty gas and electric light companies operating throughout the United States. This company was formed in 1907 and the preferred dividends have been paid regularly to date. The margin of safety above these dividends has always been heavy, and is steadily increasing.

American Light & Traction Co. 6% cumulative preferred.

Outstanding, \$14,236,200; par \$100. The company controls about a dozen operating companies located in different parts of the United States. Preferred dividends have been regularly paid since the organization of the company in 1901. The earnings for many years have been several times the amount required to meet this dividend. This is one of the very best of the public utility preferred issues in the market.

Butte Electric & Power Co. 5% cumulative preferred.

Outstanding, \$1,000,000; par \$100. This is both an operating and holding company, with a long record of

success. The preferred is a small issue, and the dividend has been earned several times over for many years.

Georgia Railway & Electric Co. 5% non-cumulative preferred.

Outstanding, \$2,400,000; par \$100. This is both an operating and holding company, and controls practically all the public utilities of Atlanta, Ga., and vicinity. The preferred dividend has been regularly paid since 1903, and in recent years has been earned several times over.

Illinois Traction Co. 6% cumulative preferred.

Outstanding, \$6,000,000; par \$100. This is a very large corporation, controlling an extensive system of electric railways and lighting companies in the State of Illinois. The preferred dividend is regularly paid and is earned several times over.

Laclede Gas Light Co. 5% cumulative preferred.

Outstanding, \$2,500,000; par \$100. This company controls and operates the entire gas lighting business of the city of St. Louis. The preferred dividend has been regularly paid for many years, and the earnings are many times the amount required.

Milwaukee Electric Railway & Light 6% non-cumulative preferred.

Outstanding, \$4,500,000; par \$100. This company controls practically all the street railway and lighting properties in and about Milwaukee, Wis. The operations have been very successful for many years. The company is itself controlled by the Milwaukee Light, Heat & Power Co., which is one of the subsidiary corporations of the North American Co. The dividend on the preferred stock has been regularly paid, and is earned several times over.

Minneapolis General Electric Co. 6% cumulative preferred.

Outstanding, \$1,000,000; par \$100. This is one of the strong "Stone & Webster" properties, and controls the entire lighting and power business of Minneapolis, Minn. The dividend on this stock has for many years been earned several times over.

Pacific Gas & Electric Co. 6% cumulative preferred.

Outstanding, \$10,000,000; par \$100. This is a very large holding company, controlling street railways, lighting and power companies in central California. The earnings are heavily in excess of the preferred dividend requirement.

Seattle Electric Co. 6% non-cumulative preferred.

Outstanding, \$7,500,000; par \$100. This is one of the strong "Stone & Webster" properties, operating in Seattle and vicinity. The preferred dividend has been regularly paid, and is earned several times over.

An investment, distributed in equal amounts among the foregoing public utility preferred issues, would work out as follows (prices as of May, 1912):

American Cities 6% preferred.....	at 80,	yields 7.50%
American Gas & Electric 6% preferred.....	at par,	" 6.00%
American Light & Traction 6% preferred....	at 110,	" 5.45%
Butte Electric & Power 5% preferred.....	at 80,	" 6.25%
Georgia Railway & Elec. 5% preferred.....	at 87,	" 5.75%
Illinois Traction Co. 6% preferred.....	at 93,	" 6.45%
Laclede Gas Co. 6% preferred.....	at 100,	" 6.00%
Milwaukee Elec. Ry. and Light 6% preferred..	at 100,	" 6.00%
Minneapolis General Elec. 6% preferred.....	at 107,	" 5.61%
Pacific Gas & Electric 6% preferred.....	at 92,	" 6.52%
Seattle Electric Co. 6% preferred.....	at 103,	" 5.83%

The above would make quite a widely distributed investment scheme in this particular field, as the companies selected are all located in different parts of the country, and their success is dependent to large degree on different influences. The net average yield on the total, if spread in even amounts in the above issues, would be about 6 $\frac{1}{8}$ %.

XX

Short Term Investments

THE popularity of short term notes and equipment trusts at the present time is due to several causes.

With the apparent permanence of the high cost of living, the individual investor is not taking kindly any longer to the long term high grade issues which yield only 4 per cent or thereabouts. If he has held many such for a long period, he probably has paid more for them than ruling prices and therefore does not want any more; especially as he has seen them recede quite steadily in price for the last half dozen years. Then the investor today finds it necessary to get a better return on his money. The high commodity prices and increased cost of living must be met, and he is trying to meet it by enlarging his income return in some way. As for institutions, such as banks, trust companies, etc., they are buying notes and short term bonds to keep idle funds at work. With loaning rates as unprofitable as they have recently been, the banks are finding it difficult to employ funds profitably, and what is better, therefore, than short term securities, well secured, with an active market, and with but slight danger from depreciation?

The fact is, that nowadays short maturities are in most ways to be preferred to long term issues. Even among straight railroad bonds, it is much better to buy at par, or slightly under, a good 4 per cent bond running ten years or less than one running fifty or one hundred years. Even in a period of tight money there is little chance of a good bond materially depreciating if its principal is to be met in a few years, while a fifty year bond might depreciate ten points, just as we have seen them do since 1902. If the proper selection can be made there is little more attractive than issues of shorter terms.

Aside from regular mortgage bonds which happen to mature early, there are two classes of very desirable short term investments. One of these is the straight short term note, sometimes secured by collateral and sometimes not, and the other the equipment trust bond. The latter security is often most attractive. An equipment bond is always secured on the actual equipment itself, and usually matures serially; that is, a certain proportion of the principal falls due every year, the payments usually being spread over ten or fifteen years. Thus, when the equipment covered has worn out or depreciated to an extent to be regarded as inefficient, the bonds secured on it are all paid off, both principal and interest.

I list below a number of short term notes and equipment issues, which it seems to me are all perfectly secure, and quite desirable as short term investments for either institutions or individuals.

Good Short Term Notes.

Some of the notes listed below have no collateral back of them, but the properties are all substantial earners and in all cases the notes are protected by good safety margins. It will be noted that none extend beyond 1918, and in all cases the yield is very substantial. One of the advantages in investing in this type of issue is that a holder can usually market his notes without loss of principal, and even in the few cases where he cannot do this, he is protected by the very short maturity.

Name—	Per Cent	Due	Approx. yield
American Locomotive Co.....	5	July	1915-17 5.00
Baltimore & Ohio.....	4½	June	1913 4.70
Bethlehem Steel Corp.....	6	Nov.	1914 5.55
Brooklyn Rapid Transit.....	5	July	1918 5.60
Ches. & Ohio R.R.....	4½	June	1914 4.95
Chicago Elevated Rys.....	5	July	1914 6.10
Cin., Ham. & Day. Ry.....	4	July	1913 4.85
Denver Gas & Elec.....	6	April	1914 6.00
Empire District Elec. Co.....	6	May	1914 5.80
Erie R.R.	6	April 8	1914 5.75
Erie R.R.	5	Oct.	1914 5.20
General Motors Co.....	6	Oct.	1915 6.25
Gen. Rubber Co.....	4½	July	1915 5.60
Hudson Companies.....	6	Feb.	1915 6.25
Illinois Central R.R.....	4½	July	1914 4.65
Miss., Kan. & Tex.....	5	May	1913 6.25
N. Y. C. Railroad Co.....	4½	Mar.	1914 4.75
St. L. & S. F. R.R.....	5	Mar. 19	1913 6.00
St. L. & S. F. R.R. Co.....	5	June	1913 6.00
Southern Ry. Co.....	5	Feb.	1913 4.65
Westinghouse Elec. & Mfg.....	6	Aug.	1913 5.05

(The prices are those of Oct. 15, 1912.)

Good Equipment Issues.

The following list includes only a few of the standard equipment issues which are desirable for short term investment. Nearly all, it will be noted, mature serially during the next five or six years:

Name—	Maturity	Per Cent
Atlantic Coast Line.....	1912-1917	4
Balt. & Ohio car trust.....	1913-1922	4½
Buff., Roch. & Pittsburg.....	1919-1927	4-4½
Central of Georgia Ry.....	1912-1917	4½-5
Central R. R. of N. J.....	1912-1917	4
Chesapeake & Ohio.....	1912-1917	4
Chicago & Alton.....	1912-1917	4-4½-5
Chicago & Eastern Illinois.....	1912-1917	4½-5
Chi., R. I. & P. Ry.....	1912-1917	4½-5
Cin., Ham. & Dayton.....	1912-1919	4½-5
Delaware & Hudson.....	-1922	4½
Erie	1912-1917	4-4½-5
Hocking Valley	1912-1918	4-4½
Hudson & Manhattan.....	1912-1919	5
Kan. City, Ft. Scott & Mem.....	1912-1915	4½
Kansas City Southern.....	1912-1915	4½
Lehigh Valley Railroad.....	1912-1916	4-4½
Missouri Pacific	1912-1917	5
Mobile & Ohio.....	1912-1916	4-6
N. Y. Central Lines.....	1912-1922	5
Norfolk & Western.....	1912-1916	4
Pennsylvania	1912-1917	3½-4
St. Louis & San Fran.....	1912-1917	4-4½-5
Seaboard Air Line.....	1912-1917	4½-5
Southern Railway	1912-1921	2½-4-4½
Virginian Railway	1912-1917	5

XXI

Investing in Convertible Bonds

WITHIN the past decade the "convertible" bond has become increasingly popular among investors of all classes. Its popularity is undoubtedly largely due to the fact that it is an ingenious combination of investment and speculation. When a bond of this character is issued by a corporation of strong earning power and the issue itself enjoys a good margin of safety, the investor is justified in feeling quite secure as to his interest and the payment of his principal. It is true that most convertible issues are either debentures or junior mortgages, but in all cases they have greater equity back of them than have the stocks into which they are usually convertible, and these stocks are themselves usually dividend payers, with the protection of a substantial earning power.

For we find that but few convertible bond issues have been created by corporations whose stocks are not paying dividends. And this is quite natural. The only reason why the railroad or other corporation issues a convertible security is because it is apt to find a better market, and it finds a better market because people who seldom if ever buy bonds, but confine their investments chiefly to

stocks, will buy the convertible bond to get the benefit of the potential possibilities of the future. Thus, where a corporation under ordinary conditions could not sell a 4 per cent mortgage bond for more than 90, it can sell a 4 per cent bond convertible into a 5 per cent or 6 per cent dividend paying stock, at par without any trouble.

For the investor who does not care to purchase stocks, but wishes to confine himself exclusively to bonds, the convertible bond issue is sometimes the ideal thing to buy. Nowadays there are in existence such a large number of convertible issues, that a pretty comprehensive scheme of investment distribution can be carried out within the limits of this single type of security. Of course, convertible issues frequently sell at very high prices as compared to what the bond would sell at as a straight mortgage, and there are times when it would be foolish for people to put much money into many of these issues. At the same time, it is often quite desirable to pay a moderate premium for a convertible bond in order to secure the potential interest in the future growth of earnings in the company. Those who, a few years ago, bought Norfolk & Western convertible 4s at 92, have fared very well. At that time the stock was paying 4 per cent dividends and selling at 88, but now 6 per cent is paid on the stock and it sells at 117. Of course, the bondholder has had full opportunity to exchange into the stock and get a 6 per cent return; but even if he still holds his bond, he has a market for it which follows the stock, and will continue to do so as long as the convertible clause holds.

Convertible bonds have been issued in recent years, not only by the railroads, but also by many public utility and industrial companies. I append below a list of the most important issues, with a brief explanation of the terms, in each case, for the convertibility of the issue.

Albany & Susquehanna Railroad first mortgage convertible $3\frac{1}{2}$ s; due April 1, 1946. Convertible at par at any time prior to April 1, 1916, into stock of Delaware & Hudson Co. at 200; that is, 5 shares of stock (\$500) par for each \$1,000 bond.

American Agricultural Chemical Co. first mortgage convertible 5s; due October 1, 1928. Convertible at any time, into cumulative 6 per cent preferred stock at par; that is, 10 shares of stock (\$1,000 par) for each \$1,000 bond.

American Telephone & Telegraph Co. convertible debenture 4s; due March 1, 1936. Redeemable on March 1, 1915, or on any interest date thereafter, on 12 weeks' notice, at 105 and interest. Convertible until March 1, 1918, at par into stock at 133.7374, with accrued interest and dividends adjusted; that is, a \$1,000 bond would receive the equivalent of \$747.70 in par value of stock (the stock would have to sell at 133.734 to give an exact equivalent of one bond).

Atchison, Topeka & Santa Fe Railway convertible debenture 5s; due June 1, 1917. Convertible into common stock at par at any time prior to June 1, 1910.

Atchison, Topeka & Santa Fe Railway convertible debenture 4s (old issue); due June 1, 1955. Convertible into common stock at par at any time prior to June 1, 1918. Redeemable at five months' notice at 110 and interest.

Atchison, Topeka & Santa Fe Railway convertible debenture 4s; dated 1909; due June 1, 1955. Convertible into common stock at par at any time prior to June 1, 1918, but not thereafter.

Atchison, Topeka & Santa Fe Railway convertible debenture 4s; dated 1910; due June 1, 1960. Convertible into common stock at par from June 1, 1913, to June 1, 1923, but not thereafter.

Atlantic Coast Line Railroad convertible debenture 4s; due November 1, 1939. Redeemable after May 1, 1916, at 105, and convertible into common stock at \$135 per share up to January 1, 1920; that is, it requires \$135 in par value of bonds to receive \$100 in par value of stock.

Brooklyn Rapid Transit Co. first refunding convertible 4s; due July 1, 2002. Redeemable at 110 and interest. Convertible into stock at par prior to July 1, 1914, unless the bond is endorsed with the words, "Convertibility of this bond is waived by the holder."

Chesapeake & Ohio Railway convertible 4½s; dated 1910; due February 1, 1930. Redeemable after 1915 at 102½. Convertible into stock at par between May 1, 1911, and February 1, 1920.

Chicago, Milwaukee & St. Paul Railway convertible debenture $4\frac{1}{2}$ s; due June 1, 1932. Convertible into common stock from June 1, 1917, to June 1, 1922, at the option of the holders.

Erie Railroad convertible mortgage Series A 4s; due April 1, 1953. Convertible at any time prior to April 15, 1912, into common stock at 50; that is, for each \$1,000 bond, \$2,000 in par value of stock will be given.

Erie Railroad convertible mortgage Series B 4s; due April 1, 1953. Convertible at any time prior to October 1, 1917, into common stock at 60; that is, for each \$1,000 bond, \$1,666.66 in par value of stock will be given.

International Paper Company consol. mortgage convertible 5s; due January 1, 1935. Convertible into preferred stock at par on any interest date prior to January 1, 1917.

New York, New Haven & Hartford Railroad convertible debenture $3\frac{1}{2}$ s; due January 1, 1956. Convertible into stock at 150, between January 1, 1911, and January 1, 1916; that is, \$300 in par value of bonds is convertible into two shares of stock.

New York, New Haven & Hartford Railroad convertible debenture 6s; due January 15, 1948. Convertible into stock at par from January 15, 1923, to January 15, 1948.

Norfolk & Western Railway convertible debenture 4s of 1907; due June 1, 1932. Redeemable at 105 and in-

terest at option of company. Convertible into common stock at par at any time prior to June 1, 1917.

Norfolk & Western Railway convertible debenture 4s of 1912; due September 1, 1932. Convertible into common stock at par at any time prior to September 1, 1922. Redeemable at 105 after the latter date.

Pennsylvania Railroad convertible debenture $3\frac{1}{2}$ s; due October 1, 1915. Convertible into stock at \$75 (par value \$50) per share; equivalent to 150 as quoted on New York Stock Exchange.

Southern Pacific Company convertible debenture 4s; due June 1, 1929. Redeemable at option of the company on and after March 1, 1914, at 105 and interest. Convertible at any time prior to June 1, 1919, into common stock at 130; that is, it takes \$130 in par value of bonds to receive one share of stock of the par value of \$100.

Union Pacific Railroad convertible debenture 4s; due July 1, 1927. Redeemable on and after July 1, 1912, at $102\frac{1}{2}$ and interest. Convertible at any time prior to July 1, 1917, into common stock at 175; that is, it takes \$175 in par value of bonds to secure one share of stock of the par value of \$100.

In this list, which includes only the most important issues of convertibles, we have railroads, public utilities and industrials represented. An investor in this field, with a fair amount of capital, could spread his risk

throughout the entire United States, just as he might do with the stocks themselves, and would have an interest in the future growth of all the properties represented. If, for example, a railroad system like the Southern Pacific should, during the next ten years, largely increase its dividend, and consequently the value of its stock, he would share in such growth through the appreciation in the value of his bond. On the other hand, should the road experience a severe setback and cut its dividend, the bonds would still be good and sell at a price which reflected the general credit of the company.

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INVESTMENT PROTECTION

Importance of Expert Service

The Investor, Banker, Bank Officer and Trustee realizes every day the importance of expert study of the primary factors which affect security values in a far more important degree than he who simply takes a "flyer in stocks." The latter class generally get little for their pains, but the real investor deserves something more tangible than "bitter experience;" the Bank Officer or Trustee finds it his duty to keep himself properly informed—if for no other reason, as a protection to those who have trusted to his judgment.

It is a well-demonstrated fact that more money is lost through "investment" than in the ordinary fields of what is known as "speculation." And the bulk of this investment loss is incurred because investors fail to properly inform themselves of the real basic factors back of their investments. A few years ago the bonds and preferred stock of the Buffalo & Susquehanna Railroad were sold widely among banking institutions and investors in all parts of the Eastern States; the Allis-Chalmers first mortgage 5s and preferred stock were offered as high-grade investments by prominent houses; the Pere Marquette, Chicago Great Western, Western Pacific and Denver & Rio Grande bond issues were aggressively advertised as strong securities; the

Wabash refunding 4s were everywhere distributed as bonds of great prospective value. To-day many of these issues are either in default or have undergone heavy depreciation. And yet, an impartial analysis of the factors back of all of them long ago disclosed the fact that they were "speculations" and not investments.

On the other hand, many bonds and dividend-paying stocks which sold at relatively low prices a short time ago have risen in value and investment strength to a marked degree. For instance, Canadian Pacific stock has risen in the last five years to a level which the ordinary investor would not have dreamed of in 1906. This has not been due to speculative causes merely, for an analysis of the Canadian Pacific finances and property five years ago would have clearly demonstrated that the asset value of the stock would vastly increase in the future years. A study of the property assets back of the United States Steel Corporation sinking fund 5s in 1904, when they were selling at 80, would have clearly shown that they were intrinsically worth at least their par value. An unbiased analysis of the values back of the Standard Oil and American Tobacco issues at the time of dissolution, clearly indicated that the earning capacity of the companies was far greater than was then reflected in the prices of the stocks. And so on, ad infinitum.

But further than this, a careful analysis of primary factors is also of the greatest importance to those investors who confine their purchases entirely

to what are known as "high-grade, seasoned investments." In 1901 Lake Shore & Michigan Southern first $3\frac{1}{2}$ s were in this class and sold at 110; they are still in this class, but sell below 88; St. Paul first 4s sold at 115 in 1902; to-day they sell below par; Chicago & Northwestern $3\frac{1}{2}$ s sold at 106½ in 1902; they are now quoted at 84; even high-grade municipal issues are nowadays ranging from ten to fifteen per cent. below the prices of a decade ago. Thus the investor who has confined his selections in the last decade to the highest grade bonds is in many cases worse off than he who has bought issues of far lower grade.

Instances similar to the above could be cited almost indefinitely, but enough has been said to show the vital importance to all, whether as Investor, Banker, Trustee or Bank Officer, of going below the surface in studying values as well as studying the general factors which bring about changes in the general price level of investments from year to year.

In fact, there are just two broad general fields of study which are absolutely indispensable for the investor. First, the study of the general fundamentals which bring about periods of inflation and depression; affect the prevailing interest rate of the civilized world; cause financial or industrial panics; raise or lower the level of commodity prices, etc. Whether we are in a period of decline or improvement in business are questions which we should always attempt to determine, but when these basic questions are answered to the investor's satisfaction,

at best only half the problem has been solved. When most bankers and investors bought Buffalo & Susquehanna securities we were clearly in a period of prosperity, but this fact did not prevent them from losing their money.

This brings us to the field of study which is, in all specific cases, by far the most important. It is the question of selection; and in the problem of selection really lies the key to investment success. For while every bond or stock responds in a general way to the broad trend of business and public credit, it also responds most directly to specific influences which affect it alone. And for this reason "analyzing" individual securities is usually much more important to the average investor than mere "forecasting." We may "forecast" the recurring cycles of prosperity and depression in this country with fair accuracy but if we do not analyze our investment holdings and test each individual security, we frequently run a great risk of seeing at least a part of our principal swept away.

* * *

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